

## **Appendix 4E**

### **PRELIMINARY FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2004**

# **MIKOH Corporation Limited**

**ABN 41 003 218 862**

**Period 1 July 2003 to 30 June 2004**

**(Previous Corresponding Period 1 July 2002 to 30 June 2003)**

## Appendix 4E

### Preliminary final report

Name of entity

**MIKOH Corporation Limited**

ABN or equivalent company reference	Half yearly <i>(tick)</i>	Preliminary final <i>(tick)</i>	Financial year ended ('current period')
41 003 218 862	<input type="checkbox"/>	<input checked="" type="checkbox"/>	30 June, 2004

#### Results for Announcement to the Market

Results	\$A
Revenues from ordinary activities	Up 77% to 2,732,089
(Loss) from ordinary activities after tax attributable to members	Down 83% to (293,429)
Net (Loss) for the period attributable to members	Down 83% to (293,429)
<b>Dividends (distributions)</b>	
	Amount per security
	Franked amount per security
Final dividend	NIL
Previous corresponding period	NIL
Record date for determining entitlements to the dividend,	N/A
<p>The Company does not have a dividend reinvestment plan and no dividends are proposed to be declared for the current year.</p>	
<p><b>Note:</b> This Appendix 4E should be read in conjunction with the Commentary on the Results of the Preliminary Financial Report for the year ended 30 June 2004 and with the accompanying notes to the Appendix 4E.</p>	

## APPENDIX 4E – 2004 PRELIMINARY FINAL REPORT

### Commentary on the Results

The Directors are pleased to report that the financial results for the year ended 30 June 2004 show a significant improvement over that of prior years both in respect of the level of reported losses and net cash outflow from operations.

The improvement in the 2004 trading results, with revenues up 77% to \$2,732,089 and losses down by 83% to \$293,429, confirms that the business strategy of targeted sales and cost containment is producing positive results.

There has been an upswing in sales performance during the year, largely as a result of the concerted effort to focus on specific market opportunities and through the development of strategic business relationships to assist in the marketing and development of MIKOH's technologies internationally. It is planned to continue this strategy in the short term with the objective of expanding market share and sales volumes within existing identified markets.

It is reasonable to expect that with continued strong interest in MIKOH's technologies and products, shareholders should see further improvements in the trading results during the 2005 year.

A brief update of MIKOH's operations and activities during the past year follows:-

#### Smart&Secure™

MIKOH's US subsidiary continued during the year to focus on selected market sectors for its Smart&Secure™ secure radio frequency identification (RFID) tag technology. Awareness of the need for RFID tag security is growing and MIKOH is well positioned to meet this need with Smart&Secure.

In the near term the company will continue to target markets in which tag security is an immediate requirement; where there is potential for large volumes; and which can support current tag prices.

In particular, the company will continue to develop its relationship with TransCore. MIKOH and TransCore have continued joint development of the tamper resistant sticker (TRS) RFID tag, which for marketing purposes has been renamed the security sticker tag, or SST.

Pending the completion of development of the SST, MIKOH and TransCore produced an interim windshield RFID tag to address immediate market requirements. Approximately 300,000 of these tags have been supplied to TransCore for use in US government applications during the year – mainly related to Homeland Security.

On 19 August 2004 MIKOH announced the first SST order, valued at approximately A\$200,000. The first SSTs will be used by the US government in low-speed vehicular applications. MIKOH and TransCore are currently developing a high-speed SST that is scheduled for release in early 2005. Sales of the new tag into high-volume high-speed markets, in particular electronic vehicle registration (EVR), will be a key target over the next 12 months.

In addition MIKOH US will continue to focus on developing supply relationships with RFID system integrators in several other key market areas where tag security is recognized as important, most notably:-

- Pharmaceuticals;
- Aircraft safety equipment;
- Secure inventory management; and
- Securing identification documents (such as passports and visas).

**APPENDIX 4E – 2004 PRELIMINARY FINAL REPORT  
(Continued)**

**Digital Ink-Jet Systems**

MIKOH Imaging Systems Pty Limited (MIS) completed the installation of 7 digital ink-jet systems (including upgrades) during the year ended 30 June 2004, in addition to regular maintenance and support services for customers. In addition there was one installation in progress but incomplete at year end. These installations comprised 5 systems in Italy and 3 in China.

In September 2003 MIS successfully installed its first SL400X Dual Colour machine in China. This technology allows the printing of dual colour on a single pass across the digital printing head, providing a distinct marketing advantage. A second Dual Colour system has been sold in Italy and was awaiting installation at year end.

During the 2<sup>nd</sup> half of the year, MIS provided dedicated sales support to Castagnoli Form Consulta Srl (CFC), our new sales agent in Italy, providing them specific sales training and undertaking customer visits to assist in market development. In response CFC sold 3 systems in the first few months following their appointment and has recently arranged for two of their technicians to visit Australia to undertake equipment installation and maintenance training, which was successfully completed in July 2004.

The 4<sup>th</sup> quarter business activity was largely devoted to installing and commissioning new systems and it is anticipated that these installations will serve as excellent reference sites and lead to new customer orders during the 3<sup>rd</sup> and 4<sup>th</sup> calendar quarters of 2004.

Competition in China in the labels and business forms market contributed to the lack of new orders from that region during the 2<sup>nd</sup> half of the year, however, a modified product offering suitable for the Chinese market is due for release in September 2004 which should address the imbalance in our product range.

MIS has continued its research and development activities over the past 12 months, successfully completing the following projects:-

- A multi-coloured single pass system - for security applications in Europe and China;
- A data encryption feature - for security printing;
- A multi language print feature - for cross country applications; and
- A Portable Data File (PDF) printing and manipulation feature - to enhance security printing and emulate laser printing properties.

These features have progressively been incorporated into equipment sales made during the year, all of which have provided customers with enhanced capability and a differentiator from other equipment manufacturers.

**SubScribe™/COUNTERFOIL™**

Our license arrangements in respect of MIKOH's original technologies covering SubScribe™ and COUNTERFOIL™ are continuing, with revenues for 2004 amounting to \$119,187 (2003 \$78,663). Our Sydney based licensee, Frontline Barcoding and Printing, continues to service the commercial inventory and asset tracking label market and during the year negotiated with a Hong Kong based company to supply SubScribe™ label products which is expected to provide increased sales opportunity into the Asian market.

**APPENDIX 4E – 2004 PRELIMINARY FINAL REPORT**  
**(Continued)**

**Financial Review**

The directors are pleased with the significant improvement in the financial results for the year ended 30 June 2004.

Total revenue from ordinary activities for the year was up 77% to \$2,732,089 whilst the net loss for the year was reduced by 83% to \$293,429. In addition net cash outflow from operating activities reduced by 75% to \$299,023.

The research & development tax off-set concession has contributed \$444,204 of revenue during the 2004 year and comprises the proceeds from the 2003 claim of \$264,204 and an accrual of the expected concession in respect of the 2004 year of \$180,000. Further claims will be made in future years in line with the continuing R&D program undertaken by MIS.

The following summary of the financial results over the past 5 years demonstrates the improvement in the trading performance achieved to date:-

<b>Year</b>	<b>Revenue</b>	<b>Net (Loss)</b>	<b>Net Operating Cash (Outflow)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2000	442,674	(1,504,806)	(1,456,566)
2001	729,963	(2,238,562)	(2,220,067)
2002	1,088,756	(3,139,027)	(2,546,832)
2003	1,541,339	(1,742,091)	(1,204,380)
2004	2,732,089	(293,429)	(299,023)

The improved trading results and financial position reinforces the trend established over the past 24 months of a systematic and focused move to bring each business unit into profit. It is particularly pleasing to note that the US operations produced a small profit for the year and have been self funding over the past twelve months.

In summary, the 2004 financial results are a significant improvement over past years and provide support for the expectation of continued improvement in revenue and trading results over the coming year.

\*\*\*\*\*

**Statement of Financial Performance**

**For the year ended 30 June 2004**

	Note	Consolidated	
		2004 \$	2003 \$
Revenue from ordinary activities	3	2,732,089	1,541,339
Expenses by function:-			
Cost of goods sold		(897,111)	(460,950)
Manufacturing and customer services		(246,895)	(361,342)
Administration and general		(617,777)	(1,072,780)
Borrowing costs		(3,831)	-
Marketing and sales		(534,229)	(704,045)
Research and development		(725,675)	(684,313)
Profit (loss) from ordinary activities before income tax expense	4	(293,429)	(1,742,091)
Income tax expense		-	-
Profit (loss) from ordinary activities after income tax expense		(293,429)	(1,742,091)
Net profit (loss) attributable to members of MIKOH Corporation Limited		(293,429)	(1,742,091)
Total changes in equity attributable to members of MIKOH Corporation Limited other than those resulting from transactions with owners as owners	5	(293,429)	(1,742,091)
Basic earnings (loss) per share	6	(0.32) cents	(2.29) cents
Diluted earnings (loss) per share	6	(0.32) cents	(2.29) cents

The above Statement of Financial Performance should be read in conjunction with the accompanying notes

**Condensed Statement of Financial Position**

As at 30 June 2004

		Consolidated	
	Note	2004 \$	2003 \$
<b>Current Assets</b>			
Cash assets	7	468,381	208,048
Receivables		299,853	203,029
Inventories		420,358	398,711
Other assets	8	252,123	41,161
<b>Total Current Assets</b>		<b>1,440,715</b>	<b>850,949</b>
<b>Non-Current Assets</b>			
Plant and equipment		309,468	415,018
Intangible assets		287,555	429,007
<b>Total Non-Current Assets</b>		<b>597,023</b>	<b>844,025</b>
<b>Total Assets</b>		<b>2,037,738</b>	<b>1,694,974</b>
<b>Current Liabilities</b>			
Payables		886,782	684,726
Other liabilities (unearned income)		56,250	75,000
<b>Total Current Liabilities</b>		<b>943,032</b>	<b>759,726</b>
<b>Non-Current Liabilities</b>			
Payables		62,778	135,000
Provisions		133,789	114,930
Other liabilities (unearned income)		-	56,250
<b>Total Non-Current Liabilities</b>		<b>196,567</b>	<b>306,180</b>
<b>Total Liabilities</b>		<b>1,139,599</b>	<b>1,065,906</b>
<b>Net Assets</b>		<b>898,139</b>	<b>629,068</b>
<b>Equity</b>			
Parent entity interest			
Contributed equity	9	19,806,433	19,243,933
Retained profits (accumulated losses)	5	(18,908,294)	(18,614,865)
<b>Total parent entity interest</b>		<b>898,139</b>	<b>629,068</b>
<b>Total Equity</b>		<b>898,139</b>	<b>629,068</b>
<b>Net tangible asset backing per ordinary security</b>		<b>0.63 cents</b>	<b>0.23 cents</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes

**Condensed Statement of Cash Flows**

For the year ended 30 June 2004

	Note	Consolidated	
		2004 \$	2003 \$
<b>Cash Flows from Operating Activities</b> (inclusive of goods and services tax)			
Receipts from customers		2,557,197	1,745,797
Payments to suppliers and employees		(2,865,605)	(2,955,077)
		(308,408)	(1,209,280)
Interest received		9,385	4,900
<b>Net cash outflow from operating activities</b>	<b>10</b>	<b>(299,023)</b>	<b>(1,204,380)</b>
<b>Cash Flows from Investing Activities</b>			
Payments for plant and equipment		(1,496)	(21,678)
Proceeds from sale of plant and equipment		-	5,403
<b>Net cash outflow from investing activities</b>		<b>(1,496)</b>	<b>(16,275)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from the issue of shares		587,500	1,244,706
Payment for share issue expenses		(25,000)	(59,074)
<b>Net cash inflow from financing activities</b>		<b>562,500</b>	<b>1,185,632</b>
<b>Net increase (decrease) in cash held</b>		<b>261,981</b>	<b>(35,023)</b>
Cash at the beginning of the financial year		208,048	247,570
Effects of exchange rate changes on cash		(1,648)	(4,499)
<b>Cash at the end of the financial year</b>	<b>7</b>	<b>468,381</b>	<b>208,048</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

### 1. GOING CONCERN

As at 30 June 2004 the consolidated entity had a surplus of capital and reserves of \$898,139 (2003 \$629,068) and a working capital surplus of \$497,683 (2003 \$91,223). However, the consolidated entity has experienced operating losses during the year ended 30 June 2004 amounting to \$293,429 (down from \$1,742,091 in 2003) and negative net operating cash flows of \$299,023 (down from \$1,204,380 in 2003). Accordingly, the continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the consolidated entity being successful in the following objectives:-

- Achieving sufficient future cash flows from its operations to enable its obligations to be met; and/or
- Establishing strategic alliances to assist in funding the commercialisation of the technologies; and/or
- Obtaining additional funding or capital raising.

As a result of the financial position outlined above, there is significant uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the directors currently believe that the consolidated entity will be successful in achieving the above objectives and accordingly have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 30 June 2004. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

### 2. FOREIGN ENTITIES

Foreign controlled entities have prepared their financial reports in accordance with Australian Accounting Standards.

### 3. REVENUE

#### Revenue from operating activities

	Consolidated	
	2004	2003
	\$	\$
Sale of goods	1,701,339	934,631
Consulting fees	352,486	159,598
Equipment rental	-	60,794
Royalties and license fees	119,187	78,663
	2,173,012	1,233,686

#### Revenue from outside the operating activities

Foreign exchange gains (net)	16,408	42,069
Interest – other	9,385	4,274
Proceeds on sale of non-current assets	-	5,403
Provision – employee entitlements	-	24,053
Provision – doubtful debts	-	9,000
R&D tax off-set concession	444,204	222,854
Export market development grant	88,962	-
Sundry income	118	-
	559,077	307,653
Total revenue from ordinary activities	2,732,089	1,541,339

Notes to Appendix 4E

	<b>Consolidated</b>	
	2004	2003
	\$	\$
<b>4. LOSS FROM ORDINARY ACTIVITIES</b>		
<b>(a) Net gains and expenses</b>		
The loss from ordinary activities before income tax expense includes the following specific net gains and expenses:-		
<b>Net gains</b>		
Net gain on foreign currency transactions	16,408	42,069
<b>Expenses</b>		
Net loss on disposal of plant and equipment	2,868	19,695
Depreciation of plant and equipment	104,178	147,982
Net amount provided for:-		
Amortisation - intellectual property	141,452	141,452
Write-down of inventory to net realisable value	15,000	249,631
Bad and doubtful debts – trade debtors	13,255	(9,000)
Employee entitlements	25,109	(24,053)
Rental expense relating to operating leases:-		
Minimum lease payments	20,600	23,318
Research and development	725,675	684,313
	<hr/>	<hr/>
<b>(b) Individually significant items</b>		
The loss from ordinary activities before income tax expense includes the following individually significant items expensed in the financial statements:-		
Inventory write-down to net realisable value	-	249,631
	<hr/>	<hr/>
<b>5. ACCUMULATED LOSSES</b>		
<b>Accumulated Losses</b>		
Balance at beginning of year	(18,614,865)	(16,872,774)
Total changes in equity recognised in the Statements of Financial Performance	(293,429)	(1,742,091)
Balance at end of year	<hr/> <b>(18,908,294)</b> <hr/>	<hr/> <b>(18,614,865)</b> <hr/>

**Notes to Appendix 4E**

	Consolidated	
	2004	2003
	\$	\$
<b>6. EARNINGS PER SHARE</b>		
Basic earnings (loss) per share (in cents)	(0.32)	(2.29)
Diluted earnings (loss) per share (in cents)	(0.32)	(2.29)
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings (loss) per share	91,372,302	76,041,449
Number of ordinary shares issued since the reporting date	-	-
Reconciliation of earnings used in calculating earnings per share:-		
Net profit (loss) and earnings (loss) used in calculating basic and diluted earnings per share	(293,429)	(1,742,091)

MIKOH Corporation Limited does not have any potentially dilutive ordinary shares in the financial years ended 30 June 2004 and 30 June 2003. The share options have not been included in the determination of basic or dilutive earnings (loss) per share.

	Consolidated	
	2004	2003
	\$	\$
<b>7. CASH ASSETS</b>		
<b>Current</b>		
Cash on hand	4,374	2,385
Cash at bank	464,007	203,506
Cash on deposit	-	2,157
	<u>468,381</u>	<u>208,048</u>

**8. OTHER ASSETS**

**Current**

Prepayments	60,123	41,161
Accrued income	192,000	-
	<u>252,123</u>	<u>41,161</u>

The accrued income included in other current assets represents the estimated amount receivable in respect of the year ended 30 June 2004 under the Commonwealth Government's export market development grant and research and development tax off-set concessions. These amounts have not previously been accrued at year end as they were not able to be quantified or determined with any reasonable assurance until the preparation of the respective claims.

Notes to Appendix 4E

**9. SHARES**

**Share Capital**

Movements in the share capital of the company during the past two years were as follows: -

Date	Details	No. of Shares	Issue Price	\$
	Opening balance as at 1/7/2002	64,032,481		18,058,301
30/7/2002	Rights issue	5,518,618	8 cents	441,489
30/9/2002	Rights issue (supplementary)	4,868,334	8 cents	389,467
21/10/2002	Rights issue (supplementary)	250,000	8 cents	20,000
10/3/2003	Private placement	3,750,000	4 cents	150,000
10/3/2003	Private placement	6,500,000	3.75 cents	243,750
	Less: Cost of 2003 share issues	-		(59,074)
	Closing balance as at 30/6/2003	84,919,433		19,243,933
12/12/2003	Private placement	11,750,000	5 cents	587,500
	Less: Cost of 2004 share issue	-		(25,000)
	Closing balance as at 30/6/2004	96,669,433		19,806,433

Consolidated	
2004	2003
\$	\$

**10. CASH FLOW INFORMATION**

Reconciliation of loss from ordinary activities after income tax to net cash flows from operating activities is as follows:-

Profit (loss) from ordinary activities after income tax	(293,429)	(1,742,091)
Add (less) non-cash flows included in loss:-		
Amortisation	141,452	141,452
Depreciation	104,178	147,982
Net loss on sale of non-current assets	2,868	19,695
Provision for doubtful debts – trade debtors	-	(9,000)
Net exchange differences	1,648	4,499
Change in operating assets and liabilities:		
Decrease (increase) in other debtors and prepayments	(307,786)	32,390
Decrease (increase) in inventories	(21,647)	232,648
Increase (decrease) in trade/other creditors, provisions and unearned income	73,693	102,898
Net transfer of items of inventory to plant and equipment (investing activity)	-	(134,853)
Net cash inflow (outflow) from operating activities	(299,023)	(1,204,380)

**11. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. Accordingly, the consolidated entity will be required to apply the Australian AASB equivalents to IFRS for the year ending 30 June 2006, and as a result will be required to restate its 2005 financial comparatives for the effect of any accounting differences as a consequence of the adoption of the new reporting standards.

The consolidated entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. The audit committee will oversee and manage the consolidated entity's transition to IFRS, including the training of staff and system/internal control changes necessary to gather all the required financial information.

At the present time the directors are of the opinion that no material differences in accounting policies are expected to arise from the adoption of the Australian AASB equivalents to IFRS.

**Statement on Appendix 4E**

---

This report is based on +accounts to which one of the following applies.

*(Tick one)*

The +accounts have been audited.


The +accounts have been subject to review.

The +accounts are in the process of being reviewed.

The +accounts are in the process of being audited.

The +accounts have *not* yet been audited or reviewed.

Sign here:

  
Ian Cameron.....  
(Director)

Date: 31 August 2004

Print name:

Ian Cameron.....