

Senetas Corporation Limited

ABN 33 006 067 607

Annual Financial Report  
for the year ended 30 June 2000

# SENETAS CORPORATION LIMITED

ABN 33 006 067 607

## Directors

Francis W. Galbally  
Alan R. Munday  
Donald F. Hagans  
Peter S. Cook  
Barry S. Lewin

## Company Secretary

Francis W. Galbally

## Registered Office

### **Senetas Corporation Limited**

Level 1  
424 St Kilda Road  
Melbourne Vic 3004  
PHONE: +61 (03) 9868 4555  
FAX: +61 (03) 9821 4899  
WEB: [www.senetas.com](http://www.senetas.com)  
EMAIL: [corporate@senetas.com](mailto:corporate@senetas.com)

## Share Register

### **Computershare Registry Services Pty Ltd**

Level 12,  
565 Bourke St,  
Melbourne Vic 3000  
PHONE: +61 (03) 9611 5711  
FAX: +61 (03) 9611 5710

## Auditors

### **Ernst & Young**

Level 33,  
120 Collins St,  
Melbourne Vic 3000

## Home Exchange

### **Australian Stock Exchange (Melbourne) Limited**

530 Collins St,  
Melbourne Vic 3000

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The financial results of Senetas Corporation Limited (Senetas) for the 12 months to June 2000 reflect the initial steps toward building a significant global technology investment company.

Sales revenue generated by Senetas and its operating subsidiaries amounted to \$3.82 million. No sales revenue was generated on a comparable basis in the previous corresponding period. Total operating revenue including interest earned amounted to \$4.5 million.

The reported operating loss of \$5.53 million arose from three main sources:

- the cost of establishing a high quality team of professionals engaged in the evaluation and management of investments in Australia, the USA and Asia;
- a provision against an equity stake in one investee company; and,
- the group's share of losses arising from investments in start-up companies in which Senetas has a controlling interest.

On a cash basis, the loss for the year was a lesser amount of \$3.70 million.

At the end of the year, Senetas was in a strong financial position. It had net assets of \$51 million with cash available for investment of \$13.4million. Consolidation of KUSP a separate listed company, of which Senetas holds 40%, added \$1.0 million to the cash shown in the balance sheet and \$8.53 million to net assets.

### **Accounting Treatments**

Directors have elected to carry the Senetas investments at cost.

Notwithstanding the reported operating loss, active management of the group's investments is already adding significant value which has not been reflected in the reported financial outcome for the year.

Directors recognise that some risk attaches to the investment activities of the company and that an appropriately conservative accounting for its investments can reassure potential investors in the company. The existing investments have been reviewed with this in mind.

Generally speaking, the intention of the company is to actively manage its investments and, where necessary, through restructuring, new product development or the creation of synergies with other businesses realise value through an IPO or trade sale.

A key point of difference in the Senetas investment approach and one of its ongoing strengths compared with many other investors in the sector is its ability to provide additional business and management skills where they can be applied to enhance the value of an investment.

Even where directors are confident of an investment eventually satisfying the company's return criteria, book values have been based on potential sale prices of an investment on an unimproved or stand-alone basis. It is the company's policy to only report profits from investments upon cash realisations.

### **A Successful Formation**

The primary goal for the past year was to establish Senetas as a global communications and information technology infrastructure investor. This goal was successfully achieved by raising nearly \$49 million and undertaking initial investments in 13 investee companies capable of commercialising technology products in the international marketplace within two or three years.

Senetas also successfully established an international operational base to support its activities. Starting the year with two personnel and operations in Melbourne, Senetas has expanded to a team of twenty-six staff and advisors operating in investment centres located in Melbourne, Sydney, Singapore and Los Angeles. In addition, Senetas has been a founding member of the Global ITVC Network which provides a presence on the US East Coast, in Britain and Israel.

To implement its goals, Senetas has placed a high priority on acquiring the diverse skills needed to evaluate and manage potential investments. This has required a combination of direct employees with a balance of technical, financial and managerial skills as well as establishing a panel of experts from which advice can be drawn when needed.

### **Highlights**

Among the highlights in the first year of operation have been the successful floats of KUSP Limited, and the merger of Alta Internet Business Centers Pty Ltd with Interpath Communications, Inc. of the USA which was completed at the beginning of August.

The incubation and commercialisation of Senetas' flagship investment, eCryp Inc., also represents a significant achievement. The eCryp biometric encryption product has moved from concept prototype to being ready for commercialisation.

A US-based company has been established to commercialise its product and, while the investment is in the balance sheet at a value of A\$5.3 million, eCryp recently raised USD\$2 million for a 10% stake implying a valuation for the Senetas investment at the current exchange rate of A\$32 million. Patent applications have been made and the results are expected to be received in the near term from the US patents office.

### **Key Investments**

Senetas holds investments in three principal areas: security applications, enabling technology and niche commercial opportunities.

Within the security area, the two most significant opportunities are in eCryp and CTAM.

- eCryp (currently 90% held by Senetas) has developed software which will enhance the operating and security performance of biometric systems, in particular automated fingerprint identification systems. Significant value has been added in the past year through the active management of this investment
- CTAM (54%) is a leading developer and supplier of very high-speed hardware security products for virtual private networks (VPN) and high-speed asynchronous transfer mode (ATM) networks. Sales have been negotiated with several Australian Government departments and distribution agreements have been secured in the USA.

Among its other investments engaged in development of security applications are:

- EPIL Pty Ltd (100%) which is developing a networking tool that will enable global management and tracking of contact information; and,
- WebCryp Pty Ltd (100%) a security software program that is designed to preserve the integrity of Web pages against inadvertent and unauthorised changes.

Enabling technologies are designed to meet the needs of third parties in establishing their own commercial activities.

- Aurion Corporation (51%) has developed human resource management software that is ideally suited to complex salary systems across multiple operational sites.

Due diligence is being undertaken on a time and attendance application to broaden its product offering into the strongly growing area of labour outsourcing.

- DataEase (30%) specialises in the development of customised database applications. Its revenues rose by 32% in the past year.

The company is in the process of launching unique software applications for use in the medical, transport and government fields.

- In August 2000, Senetas took a 1.35% interest in Interpath Communications Inc. in exchange for its 45% interest in Alta Internet Business Centers Pty Ltd, one of Australia's leading Application Service Providers.(ASP).

Senetas had initially invested \$2 million in Alta and a further \$2m in February 2000. The transaction values Senetas' investment in Interpath at \$6.1 million. The terms of the deal include non-dilution of Senetas in future funding rounds upto US\$50million.

The major owners of Interpath (Carolina Power and Light and Bain Capital) are committed to consolidating Interpath's leadership position within the ASP industry and plan an initial public offering on Nasdaq.

- KUSP Ltd, a publicly listed company in which Senetas has a 40% holding, is an e-integrator, designing, developing, integrating and supporting retail solutions in the B2C and B2B space. It provides a range of solutions utilising 3D technologies, including technology licensed from realityBUY.

- RealityBUY.com (1.5%) has developed technology to enhance the marketing of complex products utilising 3D interactive solutions. Senetas has licensed the product for the B2C environment. Senetas initially acquired 185,000 shares at US\$2.00 per share in January 2000 and another 200,000 shares in the current funding round anticipated at US\$10 per share.
- Surfboard Financial Services (1.2%), a listed public company, is developing an internet-based personal financial centre platform that will provide an integrated online environment from which financial institutions and others can distribute a complete range of branded financial services. Following recent changes in market conditions, the Board has decided to bring the book value of this investment into line with the current share price resulting in a provision of \$230,000 being made against the value of the investment

The company has investments in two niche commercial opportunities

- YellowOnline is a US-based online business directory service in which Senetas has an 8% holding. Senetas has also acquired rights for YellowOnline in the Asia-Pacific region. Since Senetas acquired 1 million shares at US\$2.50 per share in January 2000, there has been a share placement to North American investors at US\$3.50 per share, post a 2-for-1 split.
- Chakra.net is a portal focused in the “new age” space with spiritual, personal growth and holistic healthcare products and services. After reviewing its investment and the timescale over which its value can be realised the group decided to write down the value of its investment and to enter negotiations to convert its original equity position to a loan.

### **Looking Ahead**

Senetas begins the 2001 financial year with a solid foundation of investments and a track record, built up in a very short time, of adding significantly to their value. The key management skills are in place and the company’s strong financial position will enable it to continue to manage its existing portfolio of investments as well as to seek out further opportunities.

At the same time, the Board and management recognises that it must closely monitor its cost base to strike the best balance between future success and short-term financial goals. This will be an important priority in the year ahead.

In evaluating investments, the company is committed to a global perspective believing that the technologies in which it is investing need to have international application and that technology cannot be quarantined within national boundaries. It will continue to develop its international investment centres in Singapore and Los Angeles and use them with its growing international network of relationships to gain access to leading edge technologies with the potential for early commercial development.

In the coming year, the Board and management of Senetas will continue to seek opportunities to harvest the value of its investments as it begins the important next phase of its corporate life-cycle: building a track-record of improving returns for its shareholders to attract new investors to the company.

## DIRECTORS REPORT

Your Directors submit their report for the year ended 30 June 2000.

### NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

The names of Directors of the company in office during the financial year and until the date of this report are:

F.W. Galbally	Appointed 7 April 1999
A.R.Munday <sup>(1)</sup>	Appointed 4 February 2000
D.F. Hagans <sup>(2)</sup>	Appointed 30 July 1999
B.S. Lewin	Appointed 1 December 1999
P .S.Cook	Appointed 7 April 1999
P.C.Streader	Resigned 13 March 2000
G.A.Menzies	Appointed 8 July 1999 Resigned 4 August 1999

(1) A.R.Munday is an alternate director to F.W.Galbally and P.S.Cook, effective 20 September 1999.

(2) J.M.McKellar is an alternate Non Executive Director to D.F.Hagans, effective 1 February 2000.

The qualifications, experience and special responsibilities of the directors are set out in the Director's biographies on Page 48.

### PRINCIPAL ACTIVITY

The principal activities during the year of the entities within the consolidated entity were, and continue to be, investment in and development of the soft infrastructure associated with information and communications technology. There has been no significant change to the nature of those activities during the year.

### DIVIDENDS

No dividends have been paid or declared by Senetas and the directors do not recommend payment of any dividend for the period ended 30 June 2000.

### REVIEW AND RESULTS OF OPERATIONS

Please refer to the Profit report for the year to 30 June 2000 located on Page 1 of this report.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The state of affairs of the Company were affected by the following significant changes during the year.

#### Change in Share Capital

An increase in the share capital from \$28,020,057 to \$74,077,854 an increase of \$46,057,797. Placements at 37 cents, 85 cents and \$1.70 raising \$29,968,645, further issues of shares as a result of option conversions totalling \$5,877,837 and shares issued in consideration for the purchase of investments and technology totalling \$9,431,010 were the primary contributors to the increase in share capital.

#### SIGNIFICANT EVENTS AFTER BALANCE DATE

Since 30 June 2000, the company announced the acquisition of Alta Internet Business Centres Pty Ltd by Interpath Communications Inc (Interpath), a US based company. The acquisition resulted in a scrip exchange with Senetas receiving 1.35% of the outstanding shares of Interpath Inc in exchange for its 45% interest in Alta.

Since 30 June 2000, eCryp Inc, a wholly owned entity of the parent entity, completed a capital raising for US \$2m for approximately 10% of eCryp Inc's issued share capital.

Since 30 June 2000, the Board of Senetas announced that in a Joint Venture with a Malaysian technology investor, Prixm.com, Senetas would establish a Singapore based pan-Asian wireless applications and software development company, NET:WxS Pte Ltd (NETWxS). Upon completion of the agreement Senetas and Prixm.com would each invest an initial US\$2 million for a 50% stake each in NETWxS.

Since 30 June 2000, Senetas has increased its investment in the Melbourne-based software development house DataEase Pty Ltd (DataEase) from 30% to 57%. As part of the restructuring, an outstanding loan of \$237,500 will be repaid to Senetas and Senetas will contribute a further \$437,500 in equity capital.

On 7 August 2000, a general meeting of KUSP Limited's members was held to approve the establishment of an employee share option plan.

On 21 July 2000, an agreement was signed with Spotlight Online Pty Ltd, which involves KUSP Limited assisting with the development of new front and back end solutions including the integration of legacy systems. The contract will generate minimum revenues to KUSP Limited of \$807,000.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors foresee that during the 2001 financial year the company will continue to use its global investment base in Australia and its international investment centres in Singapore and Los Angeles to pursue investments in leading edge technologies with the potential for early commercial development.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe that it would be likely to result in unreasonable prejudice to the consolidated entity.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Senetas has Directors & Officers Liability Insurance with QBE Insurance (Australia) Limited covering the directors and officers against liability to the value of \$10,000,000 for any one claim and in the aggregate.

Senetas has Employment Practices Liability Insurance with QBE Insurance (Australia) Limited Professional Risk Insurance covering Senetas against liability to the value of \$1,000,000 for any one claim.

## DIRECTORS' AND EXECUTIVES' EMOLUMENTS

Remuneration policies are determined by the board, which makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors.

Executive remuneration and other terms of employment are reviewed annually by the board having regard to performance. Remuneration packages include superannuation, performance related bonuses and an entitlement to participate in the Senetas Directors and Employees Share Option Plan. Details of the nature and amount of each element of the emoluments of each director of Senetas and the consolidated entity and each of the executive officers of the company receiving the highest emoluments are set out in the following tables.

### Executive Directors

	Consulting Fees	Directors Fees	Options	Superannuation	Total
	\$	\$	\$	\$	\$
F.W.Galbally <sup>(1)</sup>	236,000	30,000	55,200	2,000	323,200
A.R.Munday <sup>(2)</sup>	141,124	12,500	18,400	1,000	173,024

<sup>(1)</sup>Services in connection with the management of the affairs of the company were provided by Corporate Services Management Pty Ltd. F.W.Galbally is a director of Corporate Services Management Pty Ltd.

<sup>(2)</sup>Services in connection with the management of the affairs of the company were provided by Meta Services International Pty Ltd. A.R.Munday is the sole director of Meta Services International Pty Ltd.

### Non Executive Directors

	Directors Fees	Options	Superannuation	Total
	\$	\$	\$	\$
P.S.Cook	30,000	36,800	2,000	68,800
D.F.Hagans <sup>(1)</sup>	30,000	36,800	2,000	68,800
B.S.Lewin	17,500	-	1,000	18,500
P.C.Streader (resigned 13/3/2000)	22,500	-	2,000	24,500

<sup>(1)</sup> J.M.McKellar is an alternate Non Executive Director to D.F.Hagans effective 1 February 2000.

The amounts disclosed above for remuneration relating to options are the assessed fair value of options at the date they were granted to directors during the year ended 30 June 2000. Fair values have been assessed using methodologies prescribed by the Australian Taxation Office for valuing options for taxation purposes.

### Other executives of Senetas

	Base Salary	Superannuation	Share Grants	Total
	\$	\$	\$	\$
M.Anderson	57,000	4,083	20,000	81,083
J.E.Orre	61,000	4,167	10,000	75,167
I.McMillan	35,000	3,096	-	38,096
D.H.Oliver	16,846	1,098	-	17,944
P.E.Straughair	15,200	1,081	-	16,281

Emoluments are calculated as those given to executives for the year ended 30 June 2000. Emoluments disclosed in the above table reflect the start-up nature of Senetas and are not reflective of ongoing executive remuneration.

**Other executives of the consolidated entity**

	<b>Base Salary</b>	<b>Superannuation</b>	<b>Motor Vehicle</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$	\$
B.Healy <sup>(1)</sup>	81,172	-	-	-	81,172
J.E.Orre	61,000	9,615	-	-	70,615
M.Anderson	57,000	3,271	-	-	60,271
S.Basso	44,770	4,931	6,724	351	56,776
G.Gough	46,729	3,271	3,600	-	53,600

<sup>(1)</sup>Leyah Pty Ltd, of which Mr W B Healy is a director and shareholder, provided consulting services to the company. Fees paid were \$81,172.

As at 30 June 2000, no options over unissued shares in Senetas had been issued to executives of the company or the consolidated entity.

**DIRECTORS INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY**

Directors interests in shares in Senetas as at 30 June 2000 are set out in Note 33 of this report, located on Page 34. Directors interests in options over unissued shares in Senetas as at 30 June 2000 are set out in Note 27 of this report, located on Page 27.

**Shares Under Option**

Disclosure of shares under option is contained in Note 23 Share Capital of this report, located on Page 23.

**Meetings of Directors**

The following table summarises the number of meetings of directors and their attendance.

	<b>Number of Meetings Held While A Director</b>	<b>Number of Meetings Attended:</b>
F.W Galbally	35	33
A.R.Munday	15	14
P.S Cook	35	32
B.S Lewin	22	18
D.F.Hagans <sup>(1)</sup>	31	23
P.S.Streader	17	14
G.A.Menzies	1	Nil

<sup>(1)</sup> J.M.McKellar is an alternate Non Executive Director to D.F.Hagans. She did not attend any meetings in her capacity as an alternate director.

A total of 35 Directors meetings were held during the year ended 30 June 2000.

An Audit Committee was formed on 10 March 2000. The composition of the committee consists of:

P.S.Cook (Non Executive Director);

B.S.Lewin (Non Executive Director); and

A.R.Munday (Executive Director).

The Audit Committee convened once during the year and all members were in attendance.

Signed in accordance with a resolution of the directors.

Francis W Galbally  
Chairman and Group Chief Executive Director

Melbourne, September 2000

**BALANCE SHEET**

At 30 June 2000

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>Current assets</b>					
Cash		11,392,538	1,568,433	8,807,449	1,568,433
Receivables	5	22,805,495	46,047	14,899,774	46,047
Investments	6	4,248,034	-	5,042,256	-
Inventories	7	347,863	-	-	-
Other	8	104,290	-	6,109	-
<b>Total current assets</b>		<b>38,898,220</b>	<b>1,614,480</b>	<b>28,755,588</b>	<b>1,614,480</b>
<b>Non-current assets</b>					
Receivables	9	-	8,041,068	-	8,041,369
Investments	12	8,466,343	4,403	22,934,222	4,806
Property, plant and equipment	10	881,926	96,632	99,856	96,632
Intangibles	11	12,765,536	50,000	-	50,000
Other	15	708,018	-	-	-
<b>Total non-current assets</b>		<b>22,821,823</b>	<b>8,192,103</b>	<b>23,034,078</b>	<b>8,192,807</b>
<b>Total assets</b>		<b>61,720,043</b>	<b>9,806,583</b>	<b>51,789,666</b>	<b>9,807,287</b>
<b>Current liabilities</b>					
Accounts Payable	16	1,734,861	130,282	605,308	130,282
Borrowings	17	89,499	7,228	3,696	7,228
Provisions	18	8,633,856	-	8,401,819	-
Other	19	99,877	203,600	39,402	203,600
<b>Total current liabilities</b>		<b>10,558,093</b>	<b>341,110</b>	<b>9,050,225</b>	<b>341,110</b>
<b>Non-current liabilities</b>					
Borrowings	20	141,823	-	4,933	-
Provisions	21	20,764	7,798,248	-	7,798,248
Other	22	-	39,402	-	39,402
<b>Total Non-current liabilities</b>		<b>162,587</b>	<b>7,837,650</b>	<b>4,933</b>	<b>7,837,650</b>
<b>Total liabilities</b>		<b>10,720,680</b>	<b>8,178,760</b>	<b>9,055,158</b>	<b>8,178,760</b>
<b>Net assets</b>		<b>50,999,363</b>	<b>1,627,823</b>	<b>42,734,508</b>	<b>1,628,527</b>
<b>Shareholders' equity</b>					
Share capital	23	76,067,701	28,020,057	72,378,635	28,020,057
Reserves	24	(79,717)	-	-	-
Retained profits (accumulated losses)		(31,920,418)	(26,392,234)	(29,644,127)	(26,391,530)
<b>Total parent entity interest in equity</b>		<b>44,067,566</b>	<b>1,627,823</b>	<b>42,734,508</b>	<b>1,628,527</b>
Outside equity interest in share capital		6,856,578	-	-	-
Outside equity interest in retained profits		75,219	-	-	-
Outside equity interest	37	6,931,797	-	-	-
<b>Total shareholders' equity</b>		<b>50,999,363</b>	<b>1,627,823</b>	<b>42,734,508</b>	<b>1,628,527</b>

This Balance Sheet should be read in conjunction with the accompanying notes

**PROFIT AND LOSS STATEMENT**

Year ended 30 June 2000

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>Operating revenue</b>	2	4,500,750	1,132	466,318	1,132
<b>Non-operating revenue</b>	2	264,998	99,082	260,090	99,082
<b>Total revenue</b>		<u>4,765,748</u>	<u>100,214</u>	<u>726,408</u>	<u>100,214</u>
<b>Operating (loss) before abnormal items and income tax</b>	2	(6,195,315)	(504,842)	(3,252,597)	(505,092)
Abnormal items	3	-	(838,891)	-	(838,891)
<b>Operating (loss) before income tax</b>		<u>(6,195,315)</u>	<u>(1,343,733)</u>	<u>(3,252,597)</u>	<u>(1,343,983)</u>
Income tax benefit attributable to operating loss	4	67,088	-	-	-
<b>Operating (loss) after income tax</b>		<u>(6,128,227)</u>	<u>(1,343,733)</u>	<u>(3,252,597)</u>	<u>(1,343,983)</u>
Outside equity interests in operating (loss) after income tax		(600,043)	-	-	-
Operating (loss) after income tax attributable to members of Senetas Corporation Ltd		(5,528,184)	-	(3,252,597)	-
(Accumulated losses) at the beginning of the financial year		<u>(26,392,234)</u>	<u>(25,048,501)</u>	<u>(26,391,531)</u>	<u>(25,047,548)</u>
<b>(Accumulated losses) at the end of the financial year</b>		<u>(31,920,418)</u>	<u>(26,392,234)</u>	<u>(29,644,128)</u>	<u>(26,391,531)</u>

This Profit and Loss Statement should be read in conjunction with the accompanying notes

**STATEMENT OF CASH FLOWS**

Year ended 30 June 2000	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		3,189,321	28,580	-	28,580
Payments to suppliers and employees		(9,367,517)	(625,280)	(3,141,532)	(625,029)
Interest received		635,428	1,131	466,318	1,131
Borrowing costs		(24,429)	(51,821)	(854)	(51,821)
Income taxes paid		(16,403)	-	-	-
Grant received		151,000	-	-	-
Net cash flows from / (used in) operating activities	32	(5,432,600)	(647,390)	(2,676,068)	(647,139)
<b>Cash flows from investing activities</b>					
Acquisition of plant and equipment		(783,577)	(3,663)	(232,646)	(3,663)
Proceeds from sale of property / equipment		125,958	-	121,050	-
Cash paid for equity investments		(16,309,998)	-	(16,309,998)	-
Cash paid for controlled entities		(2,085,134)	-	(3,591,768)	-
Proceeds from sale of equity investments		139,040	-	139,040	-
Proceeds from sale of non-trading investments		-	70,502	-	70,252
Acquisition of term deposits		(11,573,318)	-	(4,564,323)	-
Acquisition of intangibles		(1,500,689)	-	-	-
Interest received on escrow funds	34	583,423	556,078	583,423	556,078
Deposit for AAGET put option	34	(583,423)	(556,078)	(583,423)	(556,078)
Net cash flows from / (used in) investing activities		(31,987,718)	66,839	(24,438,645)	66,589
<b>Cash flows from financing activities</b>					
Cash proceeds from issue of shares		48,916,425	2,689,961	35,852,208	2,689,961
Cost of share issues		(1,538,265)	(196,099)	(750,531)	(196,099)
Repayment of leases		-	(7,485)	-	(7,485)
Advances by related entities		-	4,498	-	4,498
Payment of security deposit		(32,038)	-	(434)	-
Payment for unsecured advances		(196,500)	-	-	-
Repayment to related parties		(7,252)	-	(7,252)	-
Advances to related parties		(2,113,143)	-	(2,073,388)	-
Receipt of repayments from related parties		1,304,497	-	1,304,497	-
Proceeds from borrowings		974,180	-	11,095	-
Borrowing repayment		(71,765)	(343,998)	(2,466)	(343,998)
Net Cash flows from / (used in) financing activities		47,236,139	2,146,877	34,353,729	2,146,877
Net increase (decrease) in cash held		9,815,821	1,566,326	7,239,016	1,566,326
Add opening cash brought forward		1,568,433	2,107	1,568,433	2,107
Exchange rate adjustments		8,284	-	-	-
<b>Closing cash carried forward</b>	32	<b>11,392,538</b>	<b>1,568,433</b>	<b>8,807,449</b>	<b>1,568,433</b>

This Statement of Cashflows should be read in conjunction with the accompanying notes

**30 JUNE 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of accounting**

The financial statements have been prepared in accordance with the historical cost convention.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Law which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

**(b) Changes in accounting policies/comparative information**

The accounting policies adopted are consistent with those of the previous year. It should be noted, however, that Senetas Corporation Limited has changed the nature of the business from that of a diamond explorer (year ended 30 June 1999) to investing in technologies and the provision of venture capital to information technology based businesses (year ended 30 June 2000). As a result of the change in operations, comparative information is misleading and additional accounting policies have been established where appropriate.

**(c) Principles of consolidation**

The consolidated financial statements are those of the economic entity, comprising Senetas Corporation Limited (parent entity) and all entities that Senetas Corporation Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results of the subsidiary for that part of the reporting period during which the parent company had control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

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

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

**(d) Foreign currencies**

*Translation of foreign currency transactions*

Transactions in foreign currencies in entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

All resulting exchange differences arising on settlement or re-statement are brought to account in determining the profit or loss for the financial year.

*Translation of financial reports of overseas operations*

All overseas operations are deemed self-sustaining. While there is presently a degree of financial dependence on Senetas Corporation Limited, the overseas operations are operationally independent and do not expose the company to exchange gains or losses through day-to-day operations. The financial reports of overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

**e) Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days. Cash held on deposit with financial institutions for longer periods of time is included as receivables.

**(f) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Bills of exchange are measured at the lower of cost and net realisable value.

30 JUNE 2000

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (g) Investments

All investments are carried at the lower of cost and recoverable amount.

### (h) Inventories

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

### (i) Recoverable Amount

Non-current assets are not carried at an amount above their recoverable amount, and, where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

### (j) Property, plant and equipment

Items of property, plant and equipment are carried at the lower of cost and recoverable amount.

#### *Depreciation*

Depreciation is provided on a reducing balance basis on all property, plant and equipment.

Major depreciation periods are:

	2000	1999
Leasehold improvements:	the lease term	the lease term
Office equipment	5 to 15 years	4 to 5 years
Computer equipment	3 to 5 years	3 to 5 years
Furniture and fittings:	5 to 15 years	7 to 10 years

### (k) 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 of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

#### *Finance leases*

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the group are capitalized 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 charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalized, disclosed as leasehold improvements and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### (l) Intangibles

#### *Licences*

Licences are amortised over their useful lives, being 5 years.

#### *Goodwill*

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is taken as being 10 years.

#### *Brandnames*

Brandnames are amortised over the period during which benefits are expected to be received, being 10 years.

#### *Technology*

The technology will be amortised over the period during which benefits are expected to be received and this is pursuant to commercializing the technology.

30 JUNE 2000

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (m) Other non-current assets

#### *Research and development costs*

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred, such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

Grants are offset against costs as incurred.

### (n) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

### (o) Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Promissory notes have been issued. However, the value is to be determined by a future event and, therefore, it is not possible to currently record a value. Refer Note 26. "Contingent Liabilities", located on Page 26 of this report.

Finance lease liability is determined in accordance with the requirement of AASB 1008: Leases.

Hire purchase liabilities are carried at present value of minimum payments due.

### (p) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### (q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of Goods*

Control of the goods has passed to the buyer.

#### *Rendering of Services*

Where the contract outcome can be reliably measured:

- control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be reliably measured:

- revenue is recognised only to the extent that costs have been incurred.

#### *Interest*

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

### (r) Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The income tax expense for the year is calculated using the 36% tax rate. However, the deferred tax balances have been adjusted for the decreased corporate tax rate of 34% for the tax year 2000-01 and 30% thereafter. The adjustment recognises that reversal of timing differences will occur within the 2000-01 or later income tax year, at which time tax will be attributed at a lower rate. The corresponding adjustment has been charged to income tax expense.

**30 JUNE 2000**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

### **(s) Employee entitlements**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements

are charged against profits on a net basis in their respective categories.

The value of the employee share scheme described in Note 31, (located on Page 31), is not being charged as an employee entitlement expense.

### **(t) Earnings per share**

Basic earnings per share is determined by dividing the operating profit after tax and after preference dividends by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year. As a result of the operating loss, diluted earnings per share has not been calculated.

### **(u) Research and Development Syndicate**

The Company entered into a Research and Development Syndicate in December 1995. Details of the Syndicate are set out at Note 34, located on Page 37 of this report.

The significant accounting treatment is as follows:-

- The amount that may become payable through the exercise of the put option is recognised as a liability. This has been underwritten by monies deposited in an escrow account.
- The value of the put option is reset periodically with the addition of interest earned on the escrow accounts over the tenure of the put option period.
- In the event that royalty payments are made to the Syndicate members prior to 11 January 2002, the after tax amount of these payments will be applied to reduce the put option obligation.

Year ended 30 June 2000	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$

## 2 OPERATING PROFIT (LOSS)

Included in the operating loss are the following items of operating revenue:

Revenue from sale of goods		2,844,374	-	-	-
Service revenue		978,610	-	-	-
Interest revenue from other corporations		677,766	1,132	466,318	1,132
Operating revenue		<u>4,500,750</u>	<u>1,132</u>	<u>466,318</u>	<u>1,132</u>

Included in the operating loss are the following items of non-operating revenue:

Proceeds on sale of non-current assets		125,958	-	121,050	-
Proceeds on sale of investments and tenements		139,040	99,082	139,040	99,082
Non-operating revenue		<u>264,998</u>	<u>99,082</u>	<u>260,090</u>	<u>99,082</u>

The operating loss before abnormal items is arrived at after charging (crediting) the following items:

Amortisation of non-current assets					
Goodwill		134,839	-	-	-
Licences and brandname		12,227	-	-	-
Leasehold improvements		5,832	-	2,829	-
Equipment under lease		38,018	3,357	-	3,357
Research and development expenditure	15	-	10,852	-	10,852
Depreciation of non-current assets		91,060	9,571	18,884	9,571
Borrowing costs expensed					
Interest expense – other corporations		12,306	29,142	854	29,142
Finance charges – lease liability		5,846	-	-	-
Other		-	-	-	1,562
Net loss/(profit) on disposal of fixed assets		(140,887)	-	(140,887)	-
Operating lease rental		17,777	83	14,837	83
Other provisions					
Provision for employee entitlements		94,182	(21,986)	20,148	(21,986)
Provision for diminution in investments		1,245,216	2,880	1,245,216	2,880

Year ended 30 June 2000	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$

### 3 ABNORMAL ITEMS

Included in the operating loss are the following abnormal items:

*Items charged:*

Exploration expenditure written off		-	(546,076)	-	(546,076)
Provision for put option	34	(583,423)	(556,078)	(583,423)	(556,078)
Write down in the value of the research plant		-	(250,000)	-	(250,000)
Loss from sale of investments and tenements		-	(129,415)	-	(129,415)

*Items credited:*

Option fee received		-	86,600	-	86,600
Interest earned on escrow funds	34	583,423	556,078	583,423	556,078
<b>Abnormal items before income tax</b>		-	(838,891)	-	(838,891)
<b>Applicable income tax credit (charge)</b>		(210,032)	(231,364)	(210,032)	(231,364)
<b>Abnormal items after income tax</b>		(210,032)	(1,070,255)	(210,032)	(1,070,255)

### 4 INCOME TAX

The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:

Prime facie tax on operating loss	(2,230,313)	(483,833)	(1,170,935)	(483,833)
Tax effect of permanent differences	-	-	-	-
Provision for put option	210,032	200,188	210,032	200,188
Legal fees	2,939	-	(17,669)	-
Capital gains	(47,401)	-	(47,401)	-
Amortisation	(51,865)	-	-	-
Capitalised costs deductible	(100,042)	-	-	-
Entertainment	12,227	-	10,832	-
Other	2,451	98,219	-	98,219
Effect of differing tax rates	(55,437)	-	-	-
Effect of tax rate change	5,845	-	-	-
Overprovision in prior year	(64,915)	-	-	-
Tax effect of timing differences	456,751	279,681	456,751	279,681
	(1,859,728)	94,255	(558,390)	94,255
Future income tax benefit arising from tax losses and timing differences of the entity not brought to account at balance date as realisation of the benefit is not regarded as virtually certain	1,792,640	(94,255)	558,390	(94,255)
Income tax (benefit) in profit and loss statement	(67,088)	-	-	-

Realisation of the economic entity's future income tax benefits will depend on:

- The economic entity deriving future assessable income of a nature and amount sufficient to enable the benefit to be realised.
- The economic entity continuing to comply with the conditions for deductibility imposed by law.
- No changes in tax legislation which will adversely affect the ability of the economic entity to realise these benefits.

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>5 RECEIVABLES (Current)</b>					
Trade debtors	5(a)	790,096	-	-	-
Bills of exchange	5(c)	6,097,350	-	-	-
Less unearned bill interest		(64,900)	-	-	-
Short term deposits	5(b)	7,237,675	-	4,564,322	-
Sundry debtors		86,883	46,047	55,554	46,047
Amounts other than trade debts receivable from related parties :	5(d)				
Wholly owned group		-	-	1,621,507	-
Other related parties					
- associated company		237,500	-	237,500	-
Escrow funds to securitise put option	5(e)	8,420,891	-	8,420,891	-
		<u>22,805,495</u>	<u>46,047</u>	<u>14,899,774</u>	<u>46,047</u>

Terms and conditions relating to the above financial instruments:

- (a) Credit sales are on 30 day terms.
- (b) Short term deposits have an average maturity of 65 days and an effective interest rate of 6.27% pa.
- (c) Bills of exchange have an average maturity of 90 days with effective interest rates of 6.38% pa.
- (d) Details of the terms and conditions of related party receivables are set out in Note 33.
- (e) Fixed 7.7% pa term interest earned on funds deposited is taken up as income as and when it is earned. The strike price of the put option increases by the equivalent interest earned each year on the escrow account. Further details of the terms and conditions are set out in note 34.

## 6 INVESTMENTS (Current)

### *Unlisted investments at cost*

Shares in controlled entities - at cost	13	-	-	794,222	-
Shares in non-controlled companies	14	5,263,250	-	5,263,250	-
Provision for diminution in value		(1,015,216)	-	(1,015,216)	-
Total unlisted investments		<u>4,248,034</u>	<u>-</u>	<u>5,042,256</u>	<u>-</u>

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>7 INVENTORIES (Current)</b>					
Finished goods – at cost		347,863	-	-	-
Total inventories are recorded at the lower of cost and net realisable value					
<b>8 OTHER ASSETS (Current)</b>					
Prepayments		103,856	-	5,675	-
Security deposit		434	-	434	-
		104,290	-	6,109	-
<b>9 RECEIVABLES (Non-current)</b>					
Amounts other than trade debts receivable from related parties :					
Wholly owned group		-	-	-	301
Escrow funds to securitize put option	34	-	8,041,068	-	8,041,068
		-	8,041,068	-	8,041,369
<b>10 PROPERTY, PLANT AND EQUIPMENT</b>					
Plant and equipment at cost		1,640,738	493,358	757,151	493,358
Accumulated depreciation		(995,203)	(403,263)	(672,146)	(403,263)
		645,535	90,095	85,005	90,095
Leasehold improvements at cost		103,096	-	17,680	-
Provision for amortisation		(6,479)	-	(2,829)	-
		96,617	-	14,851	-
Plant and equipment under lease		190,096	19,611	-	19,611
Provision for amortisation		(50,322)	(13,074)	-	(13,074)
		139,774	6,537	-	6,537
Total property ,plant and equipment					
Cost		1,933,930	512,969	774,831	512,969
Provision for depreciation and amortisation		(1,052,004)	(416,337)	(674,975)	(416,337)
Total written down amount		881,926	96,632	99,856	96,632

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>11 INTANGIBLES</b>					
Licences		376,756	-	-	-
Provision for amortisation		(6,685)	-	-	-
		<u>370,071</u>	<u>-</u>	<u>-</u>	<u>-</u>
Brandname		155,100	-	-	-
Provision for amortisation		(5,542)	-	-	-
		<u>149,558</u>	<u>-</u>	<u>-</u>	<u>-</u>
Goodwill		7,100,132	-	-	-
Provision for amortisation		(134,839)	-	-	-
		<u>6,965,293</u>	<u>-</u>	<u>-</u>	<u>-</u>
Technology		<u>5,280,614</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost of option to acquire technology		-	50,000	-	50,000
		<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
		<u>12,765,536</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>

## 12 INVESTMENTS (Non - current)

### *Investments listed on prescribed stock exchange - at cost*

Shares in controlled companies	13	-	-	33,333	-
Shares in non-controlled companies	14	834,141	132,371	834,141	132,371
Provision for diminution in value		(357,968)	(127,968)	(357,968)	(127,968)
		<u>476,173</u>	<u>4,403</u>	<u>509,506</u>	<u>4,403</u>

### *Unlisted investments at cost*

Shares in controlled entities - at cost	13	-	-	14,434,546	403
Shares in non-controlled companies	14	7,990,170	-	7,990,170	-
Provision for diminution in value		-	-	-	-
		<u>7,990,170</u>	<u>-</u>	<u>22,424,716</u>	<u>403</u>
		<u>8,466,343</u>	<u>4,403</u>	<u>22,934,222</u>	<u>4,806</u>

### *Listed Investments - Market Values*

The aggregate market value at 30 June 2000 of investments listed on prescribed stock exchange are:		<u>587,239</u>	<u>4,403</u>	<u>4,087,239</u>	<u>4,806</u>
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### 13 INTERESTS IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity (a)			
		2000 %	1999 %	2000 \$	1999 \$
WebCryp Pty Ltd	Aust (c,d)	100	-	126,740	-
Senetas Corporation (S) Pte Ltd	Singapore (b,d)	100	-	2	-
Worldof.com Pty Ltd	Aust (d)	100	-	1,015	-
eCryp Inc	USA (d)	100	-	5,314,548	-
ePil Pty Ltd	Aust (c,d)	100	-	667,823	-
Aurion Corporation Pty Ltd	Aust	51	-	2,424,757	-
cTAM Pty Ltd	Aust	53.05	-	6,691,768	-
KUSP Ltd	Aust (d)	40	-	33,333	-
WebCryp Inc	USA (d)	100	-	1,600	-
ComCryp Inc.	USA (d)	100	-	1,600	-
Ryburg Pty Ltd	Aust	100	100%-	403	403
				15,263,589	403

(a) All equity interests are in ordinary shares.

(b) Controlled entities which are audited by other member firms of Ernst & Young International.

(c) Subsidiaries which the parent entity intends to divest within the next twelve months.

(d) Entities incorporated during the year ended 30 June 2000.

14 INTEREST IN ENTITIES WHICH ARE NOT SUBSIDIARIES OR ASSOCIATES

Name of Entity	Carrying value of Investment	
	2000	1999
	\$	\$
Surfboard Limited	471,769	-
Chakra.net Pty Ltd	nil	-
DataEase Pty Ltd	237,443	-
YellowOnline.com Inc	3,934,911	-
realityBUY.com Inc.	4,054,759	-
Alta Internet Business Centres Pty Ltd	4,010,250	-
Cassiar Magnesium Inc (ex Cassiar Mines and Metals)	4,403	4,403

All entities are incorporated in Australia other than YellowOnline.com Inc. and realityBUY.com Inc., which are incorporated in the United States of America, and Cassiar Mines & Metals Inc, which is incorporated in Canada.

**Joint Venture Operation**

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$

The share of the assets and liabilities of the joint venture attributable to Senetas Corporation Limited, which have been included in the relevant account headings, is as follows:

*Current assets*

<b>Research &amp; Development Expenditure</b>	34	nil	nil	nil	nil
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	Notes	<u>Percentage Interest</u>		<u>Activity</u>
		2000	1999	
Senetas Corporation Limited is a participant in :				
AAGET Research & Development Syndicate	34	1%	1%	Gold & Antimony

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>15 OTHER ASSETS (Non-current)</b>					
Deferred research and development costs					
Balance at beginning of year		-	-	-	-
Research and development costs incurred during the year and deferred		571,456	-	-	-
		<u>571,456</u>			
Accumulated amortisation		-	-	-	-
Balance at end of year		<u>571,456</u>	-	-	-
Employee receivable		41,897	-	-	-
Deposit		32,993	-	-	-
Deferred expenditure		3,993	-	-	-
Other		57,679	-	-	-
		<u>708,018</u>	-	-	-

**16 ACCOUNTS PAYABLE (Current)**

Trade creditors	16(a&b)	906,575	19,187	60,762	19,187
Payable to Directors and their related entities	33	-	7,252	-	7,252
Sundry creditors and accruals		828,286	103,843	544,546	103,843
		<u>1,734,861</u>	<u>130,282</u>	<u>605,308</u>	<u>130,282</u>

- (a) Terms and conditions relating to the above financial instruments:
- (i) Trade liabilities are normally settled on 30 day terms.
- (ii) Details of the terms and conditions of related party payables are set out in Note 33.

- (b) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:
- United States dollars
  - Singapore dollars

		350,336	-	-	-
		3,062	-	-	-

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>17 BORROWINGS (Current)</b>					
Hire purchase liabilities - secured	17(a&b)	39,202	-	3,696	-
Lease liability	17(c&d)	50,297	7,228	-	7,228
		<u>89,499</u>	<u>7,228</u>	<u>3,696</u>	<u>7,228</u>

- (a) The hire purchase liabilities are secured by a charge over the fixed assets under hire purchase. A guarantee has been provided by Senetas Corporation Limited.
- (b) The hire purchases have an average lease term of 4 years. The average discount rate is 10% (1999: nil%).
- (c) The finance leases are secured by a charge over the leased assets.
- (d) Finance leases have an average lease term of 3.3 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 8.05%

#### 18 PROVISIONS (Current)

Employee entitlements		230,617	-	20,148	-
Income tax		16,833	-	-	-
Other		4,734	-	-	-
Present value of a put option	34	8,381,672	-	8,381,671	-
		<u>8,633,856</u>	<u>-</u>	<u>8,401,819</u>	<u>-</u>

#### 19 OTHER (Current)

Unearned revenue		60,475	-	-	-
Provision for AAGET royalties	34	39,402	203,600	39,402	203,600
		<u>99,877</u>	<u>203,600</u>	<u>39,402</u>	<u>203,600</u>

#### 20 BORROWINGS (Non-current)

Hire purchase liabilities – secured	17(a&b)	67,431	-	4,933	-
Lease liability	17(c&d)	74,392	-	-	-
		<u>141,823</u>	<u>-</u>	<u>4,933</u>	<u>-</u>

21	PROVISIONS (Non-current)	Notes	Consolidated		Senetas Corporation Limited	
			2000	1999	2000	1999
			\$	\$	\$	\$
	Other		20,764	-	-	-
	Present value of a put option	34	-	7,798,248	-	7,798,248
			<u>20,764</u>	<u>7,798,248</u>	<u>-</u>	<u>7,798,248</u>

## 22 OTHER (Non-current)

	Provision for AAGET royalties	34	-	39,402	-	39,402
			<u>-</u>	<u>39,402</u>	<u>-</u>	<u>39,402</u>

## 23 SHARE CAPITAL

	Notes	Senetas Corporation Limited			
		2000	1999	2000	1999
		Shares	Shares	\$	\$
<i>Paid up Capital</i>					
	Ordinary shares fully paid	175,372,417	41,946,056	72,378,635	28,020,057
		<u>175,372,417</u>	<u>41,946,056</u>	<u>72,378,635</u>	<u>28,020,057</u>

Movements in the ordinary share capital of the company during the past year were as follows:-

Date	Details	Notes	Number of Shares	Issue Price	\$
1 July 1999	Opening balance		41,946,056		28,020,057
13 August 1999	Placement		40,000,000		0
23 August 1999	Placement		12,290,000	0.37	4,547,300
24 September 1999	Consideration for purchase of investment		2,500,000	0.20	500,000
10 November 1999	Consideration for purchase of investment		7,771,203	0.39	3,030,769
3 December 1999	Placement		15,139,614	0.37	5,601,657
8 December 1999	Placement		(18,000)	0.37	(6,660)
9 February 2000	Placement		756,500	0.37	279,905
15 February 2000	Placement		9,830,998	0.85	8,356,348
21 February 2000	Placement		1,200,000	0.85	1,020,000
3 March 2000	Placement		6,147,059	1.70	10,450,000
24 March 2000	Consideration for purchase of investment		1,999,980	0.42	839,992
24 March 2000	Consideration for purchase of investment		1,333,320	0.42	559,994
27 April 2000	Consideration for services		15,000	0.60	9,000
27 April 2000	Placement		495,765	0.85	421,400
27 April 2000	Consideration for services		71,556	0.56	40,000
27 April 2000	Consideration for purchase of investment		64,502	0.39	25,156
27 April 2000	Consideration for purchase of investment		1,100,000	0.20	220,000
27 April 2000	Consideration for technology rights		470,000	0.33	155,100
8 May 2000	Consideration for purchase of investment		3,416,667	1.20	4,100,000
31 May 2000	Consideration for services		23,159	0.43	10,000
21 June 2000	Consideration for services		29,851	0.67	20,000
3 March 2000	Conversion of options		700,000	0.37	259,000
	Option conversions throughout the year		28,089,187	0.20	5,618,837
					<u>74,077,855</u>
	Less: Placement costs				<u>(1,699,220)</u>
30 June 2000	Balance		<u>175,372,417</u>		<u>72,378,635</u>

Following the approval of a General Meeting of Shareholders on 29 October 1999, the company established an Employee Share / Option Plan to issue and allot securities (shares and options) to directors, employees and consultants at the discretion of the Board of Directors <sup>(1)</sup>. The total number of securities that can be granted under the Plan may not exceed 20% of the issued capital of the company from time to time. During the year, 15,900,000 unlisted options were issued to Directors under the plan. The terms and conditions of options issued to Directors are set out in Note 27 Directors Remuneration, located on Page 27 of this report.

On 8 July 1999, the members in general meeting resolved to enter into a Scheme of Arrangement and issue 40,000,000 fully paid ordinary Senetas Corporation Limited shares to the trustee for the scheme, Doravale Enterprises Pty Ltd. The trustee can issue the shares in unspecified tranches for considerations of not less than 90% of the average share price at the date of issue of the shares with the proceeds flowing to Senetas. The Supreme Court of Victoria has made an order approving the Scheme of Arrangement. At the date of this report, no trustee shares have been sold.

<sup>(1)</sup>The terms and conditions of the Plan were subsequently amended on 28 January 2000 and 20 April 2000

#### **Share options over unissued ordinary shares**

As at the 30 June 2000, there were 3,663,529 options outstanding. Each option is convertible into one ordinary paid share at any time, subject to escrow provisions, on or before 31 May 2004 at a fixed price of 20 cents per share. The number of unissued shares under these options at 30 June 2000 is 3,663,529. (1999 – 25,725,923).

During the year a total of 5,086,784 listed options were issued over unissued shares of the company. A total of 27,139,187 shares were issued during the year as a result of the exercise of listed options over unissued shares.

Under the company's Employee Share / Option Plan, 15,900,000 unlisted options were issued over unissued shares of the company. A total of 1,650,000 shares were issued during the year as a result of the exercise of these unlisted options.

As at 30 June 2000, there were 14,250,000 unlisted options granted under the Director / Employee Share Option Plan . Each option is convertible into one ordinary paid share at any time, subject to vesting provisions on or before the dates specified in note 27 at fixed prices as stated in note 27.

Notes	Consolidated		Senetas Corporation Limited	
	2000	1999	2000	1999
	\$	\$	\$	\$
<b>24 RESERVES</b>				
<i>Share discount reserve</i>				
Balance 1 July 1999	-	(12,860,471)	-	(12,860,471)
Transfer to share capital	-	12,860,471	-	12,860,471
Balance 30 June 2000	-	-	-	-
<i>Share premium reserve</i>				
Balance 1 July 1999	-	1,417,410	-	1,417,410
Transfer to share capital	-	(1,417,410)	-	(1,417,410)
Balance 30 June 2000	-	-	-	-
<i>Foreign currency translation</i>				
Balance 1 July 1999	-	-	-	-
Gain on translation of overseas controlled entities	(79,717)	-	-	-
Balance 30 June 2000	(79,717)	-	-	-

## 25 EXPENDITURE COMMITMENTS

### (a) Lease expenditure commitments

#### (i) Finance lease commitments

- no later than one year	58,786	7,488	-	7,488	
- later than one year but no later than five years	79,580	-	-	-	
Minimum lease payments	138,366	7,488	-	7,488	
Future finance charges	(13,676)	(260)	-	(260)	
Provided for in financial statements	17, 20	124,690	7,228	-	7,228

#### (ii) Hire Purchase commitments

##### Hire purchase contracts.

##### Lease commitments

- no later than one year	46,733	-	4,445	-	
- later than one year but no later than five years	84,438	-	5,931	-	
Minimum lease payments	131,171	-	10,376	-	
Future finance charges	(24,538)	-	(1,746)	-	
Provided for in financial statements	17, 20	106,633	-	8,630	-

Notes	Consolidated		Senetas Corporation Limited	
	2000	1999	2000	1999
	\$	\$	\$	\$
<i>(iii) Operating lease commitments</i>				
Total net operating lease commitments not provided for in the financial statements are as follows:				
- no later than one year	129,881	-	91,860	-
- later than one year but no later than five years	186,995	-	116,022	-
	<u>316,876</u>	<u>-</u>	<u>207,882</u>	<u>-</u>
<i>(iv) Sub contracted operating lease commitment</i>				
Total sub contracted operating lease commitments not provided for in the financial statements are as follows:				
- no later than one year	-	110,216	-	110,216
- later than one year but no later than five years	-	37,720	-	37,720
	<u>-</u>	<u>147,936</u>	<u>-</u>	<u>147,936</u>

## 26 CONTINGENT LIABILITIES

### *Promissory Notes*

On 30 June 2000, promissory notes were issued in consideration for acquiring the minority interests in ePil Pty Ltd and webCryp Pty Ltd. As outlined in Note 38, (located on Page 40), this was done with the intention of transferring the two companies will be transferred into the PRIXM joint venture, third party. At this stage, it is not possible to attach a value to the promissory notes as they will be based on the success or otherwise of a future event.

### *Controlled entities - KUSP Limited*

A claim for compensation of \$200,000 was lodged during the period against KUSP Limited relating to its use of regarding using the name 'KUSP'. The company has denied any wrongdoing and is of the opinion that no loss will be incurred.

As part of the technology license agreement which KUSP Limited entered into with realityBuy.com Inc, the initialisation fee included an amount of US \$379,000 (A\$ 633,250) which may be payable if KUSP Limited does not meet a revenue goal by 31 December 2000.

**27. REMUNERATION OF DIRECTORS**

	<b>Directors of entities in the Consolidated Entity</b>		<b>Senetas Corporation Limited</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
(a) Directors' remuneration				
Income paid or payable, or otherwise made available, in respect of the financial period, to all directors of each entity in the consolidated entity, directly or indirectly, from the entity of which they are directors or any related party:	<b>793,391</b>	<b>160,958</b>		
Income paid or payable, or otherwise made available, in respect of the financial period, to all directors of Senetas Corporation Limited, directly or indirectly, from the entity or any related party:			<b>511,598</b>	<b>160,958</b>

The number of directors of Senetas Corporation Limited whose income (including superannuation contributions) falls within the following bands is:

	<b>2000</b>	<b>1999</b>	
\$0 - \$9,999	1	2	
\$10,000 - \$19,999	1	1	
\$20,000 - \$29,999	1	2	
\$30,000 - \$39,999	2	0	
\$40,000 - \$49,999	0	1	
\$50,000 - \$59,999	0	1	
\$150,000 - \$159,999	1	0	
\$260,000 - \$269,999	1	0	

*In the opinion of directors, remuneration paid to directors is considered reasonable.*

Under the terms of the employee share/option plan approved on 29 October 1999, directors have been granted the following options:

Director	Number of Options	Exercised During the Period	Number of Outstanding Options	Exercise Price	Vesting Date	Exercise Date
F.W. Galbally	1,000,000		1,000,000	\$0.20	Immediate	29/06/09
	333,333		333,333	\$0.50	Immediate	28/01/10
	333,333		333,333	\$0.70	Immediate	28/01/10
	333,333		333,333	\$0.50	30/06/00	28/01/10
	333,333		333,333	\$0.70	30/06/00	28/01/10
	333,334		333,334	\$0.50	01/01/01	28/01/10
	333,334		333,334	\$0.70	01/01/01	28/01/10
	500,000		500,000	\$0.20	01/01/01	28/01/10
A.R.Munday	1,000,000	500,000	500,000	\$0.37	Immediate	29/06/09
	333,333		333,333	\$0.50	Immediate	28/01/10
	333,333		333,333	\$0.70	Immediate	28/01/10
	333,333		333,333	\$0.50	30/06/00	28/01/10
	333,333		333,333	\$0.70	30/06/00	28/01/10
	333,334		333,334	\$0.50	01/01/01	28/01/10
	333,334		333,334	\$0.70	01/01/01	28/01/10
D.F. Hagans	1,000,000	350,000	650,000	\$0.20	Immediate	29/06/09
	333,333		333,333	\$0.50	Immediate	28/01/10
	333,333		333,333	\$0.70	Immediate	28/01/10
	333,333		333,333	\$0.50	30/06/00	28/01/10
	333,333		333,333	\$0.70	30/06/00	28/01/10
	333,334		333,334	\$0.50	01/01/01	28/01/10
	333,334		333,334	\$0.70	01/01/01	28/01/10
B.S. Lewin	1,000,000	700,000	300,000	\$0.37	Immediate	01/12/09
	333,333		333,333	\$0.50	Immediate	28/01/10
	333,333		333,333	\$0.70	Immediate	28/01/10
	333,333		333,333	\$0.50	30/06/00	28/01/10
	333,333		333,333	\$0.70	30/06/00	28/01/10
	333,334		333,334	\$0.50	01/01/01	28/01/10
	333,334		333,334	\$0.70	01/01/01	28/01/10
P .S.Cook	1,000,000		1,000,000	\$0.20	Immediate	29/06/ 09
	333,333		333,333	\$0.50	Immediate	01/01/10
	333,333		333,333	\$0.70	Immediate	01/01/10
	333,333		333,333	\$0.50	30/06/00	30/06/10
	333,333		333,333	\$0.70	30/06/00	30/06/10/
	333,334		333,334	\$0.50	01/01/01	28/01/11
	333,334		333,334	\$0.70	01/01/01	28/01/11
J.M.McKellar <sup>(1)</sup>	100,000		100,000	\$0.60	Immediate	01/02/06
	33,333		33,333	\$0.90	Immediate	20/04/05
	33,333		33,333	\$1.10	Immediate	20/04/05
	33,333		33,333	\$0.90	01/01/01	20/04/05
	33,333		33,333	\$1.10	01/01/01	20/04/05
	33,334		33,334	\$0.90	30/06/01	20/04/05
	33,334		33,334	\$1.10	30/06/01	20/04/05

During the year 100,000 options were issued to Mr P.C.Streader (resigned as a director of the company on 13/3/2000) exercisable immediately at a price of \$0.20. These options were exercised prior to 30 June 2000.

<sup>(1)</sup>J.M.McKellar is an alternate Non Executive Director for D.F.Hagans appointed on 1 February 2000.

**28. REMUNERATION OF EXECUTIVES**

	<b>Consolidated</b>		<b>Senetas Corporation Limited</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	\$	\$	\$	\$
Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from entities within the consolidated entity or any related party, in connection with the management of the affairs of the entities within the consolidated entity, whether as an executive officer or otherwise:	359,123	-		
Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any of its subsidiaries, whether as an executive officer or otherwise:			359,123	-

The number of executives of the consolidated entity and the company whose remuneration falls within the following bands is:

	<b>Consolidated entity</b>		<b>Senetas Corporation Ltd</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
\$150,000 - \$159,999	1	0	1	0
\$260,000 - \$269,999	1	0	1	0

*In the opinion of directors, remuneration paid to executives is considered reasonable.*

	Consolidated		Senetas Corporation Limited	
	2000 \$	1999 \$	2000 \$	1999 \$

## 29 AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors from Senetas Corporation Limited.

Audit or review of the financial statements	111,000	22,000	71,000	22,000
Other services	108,200	-	27,000	-
	<u>219,200</u>	<u>22,000</u>	<u>98,000</u>	<u>22,000</u>

Amounts received by auditors of subsidiaries where services performed overseas.

Audit or review of the financial statements	2,345	-	-	-
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## 30 SEGMENT INFORMATION

Industry Segment	Information Technology		Mining		Consolidated	
	2000 \$	1999 \$	2000 \$	1999 \$	2000 \$	1999 \$
Operating revenue	4,500,750	-	-	100,214	4,500,750	100,214
Non-operating revenue	264,998	-	33,233	-	264,998	-
Segment result	(6,161,460)	-	33,233	(1,343,733)	(6,128,227)	(1,343,733)
Segment assets	53,266,572	50,000	8,453,471	9,756,583	61,720,043	9,806,583

Geographical Segment	Australia		United States		Consolidated	
	2000	1999	2000	1999	2000	1999
Operating revenue	4,500,750	100,214	-	-	4,500,750	100,214
Non-operating revenue	264,998	-	-	-	264,998	-
Segment result	(4,719,501)	(1,343,733)	(1,408,726)	-	(6,128,227)	(1,343,733)
Segment assets	61,091,254	9,806,583	628,789	-	61,720,043	9,806,583

	Notes	Consolidated		Senetas Corporation Limited	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>31 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS</b>					
Employee entitlement liabilities					
Accrued salary and on costs		105,195	-	46,445	-
Provision for employee leave entitlements		230,637	-	20,148	-
Aggregate employee entitlement liability		335,832	-	66,593	-

#### Employee Share Scheme

At a General Meeting of Shareholders on 29 October 1999, the company established a Share/Option Plan to issue and allot securities (shares and options) to directors, employees and consultants at the discretion of the Board of Directors. The Plan was subsequently amended on 28 January 2000 at an Extraordinary General Meeting. The total number of securities that can be granted under the Plan may not exceed 20% of the issued capital of the company from time to time.

#### Superannuation Commitments

Contribution to an approved superannuation fund by the entity of 7% of employees' wages and salaries, upto \$97,920 is legally enforceable in Australia.

**32 STATEMENT OF CASH FLOWS**

	Consolidated		Senetas Corporation Limited		
	Notes	2000	1999	2000	1999
		\$	\$	\$	\$
Reconciliation of the operating loss after tax to the net cash flows from operations:					
Operating (loss) after tax		(6,195,395)	(1,343,732)	(3,252,597)	(1,343,981)
Depreciation and amortisation		243,958	2,804	21,713	2,804
Profit on sale of fixed assets		(140,887)	-	(140,887)	-
Amortisation of leases		38,018	4,382	-	4,382
Provision for diminution in investments		1,245,216	2,880	1,245,216	2,880
Provision for employee entitlements		94,181	(21,986)	20,148	(21,986)
Provision for exploration write off		-	546,076	-	546,076
Loss from sale of investments & tenements		-	129,415	-	129,415
Write back of investment		-	181	-	181
Write back of non-cash consideration		-	175,000	-	175,000
Write down in value of plant		-	250,000	-	250,000
Write back of option fee received		-	(85,000)	-	(85,000)
<b>Changes in assets and liabilities</b>					
Receivables		(1,319,238)	769	(760,669)	769
Prepayments		(195)	-	(3,675)	-
Deferred expenditure		3,993	-	-	-
Inventory		(352,582)	-	-	-
Creditors and accruals		1,000,142	(253,576)	194,683	(253,076)
Development and exploration		-	(4,603)	-	(4,603)
Patents and intangibles		-	(50,000)	-	(50,000)
Effect of exchange rate changes		(49,811)	-	-	-
Net cash flow from operating activities		<u>(5,432,600)</u>	<u>(647,390)</u>	<u>(2,676,068)</u>	<u>(647,139)</u>
 (b) Reconciliation of cash					
Cash balance comprises:					
- cash on hand		10,392,538	1,568,433	8,807,449	1,568,433
- term deposits		1,000,000	-	-	-
Closing cash balance		<u>11,392,538</u>	<u>1,568,433</u>	<u>8,807,449</u>	<u>1,568,433</u>

**I Non-Cash Financing and Investing Activities**
*Acquisition of investments*

During the financial year, Senetas Corporation Limited acquired equity in various entities. Consideration paid for several investments, both controlled and non-controlled, included a combination of cash and Senetas Corporation Limited shares and/or options. Senetas equity issued had an aggregate fair value of \$9,315,526.

*Purchase of technology rights with shares*

During the financial year, Senetas Corporation Limited acquired technology rights by issuing shares having an aggregate fair value of \$155,100.

*Hire purchase transactions*

During the financial period, the consolidated entity acquired plant and equipment with an aggregate fair value of \$148,595 (1999: \$nil) by means of hire purchase.

(d) Acquisition of controlled entities

On 31 January 2000, the parent entity acquired 51% of the share capital of Aurion Pty Ltd and, on 3 May 2000, acquired 53% of cTAM Pty Ltd, both unlisted Australian companies. The acquisition details are:

	\$
Consideration	
– shares issued	5,524,757
– cash paid	3,591,768
	<u>9,116,525</u>
Outside equity interest	1,947,376
	<u><u>11,063,901</u></u>

Net Assets of the acquired controlled entities at acquisition date are as follows:

	\$
– cash	1,506,634
– receivables	2,806,486
– inventories	185,526
– intangibles	5,895
– plant and equipment	379,612
– other	117,991
	<u>5,002,144</u>
– creditors and accruals	249,930
– borrowings	171,197
– provisions	199,715
– other	417,534
	<u>3,963,768</u>
– fair value of net tangible assets	7,100,133
– goodwill arising on acquisition	11,063,901
	<u><u>11,063,901</u></u>
Net cash effect	
Cash consideration paid	3,591,768
Cash included in net assets acquired	<u>(1,506,634)</u>
Cash paid for purchase of controlled entity as reflected in the consolidated financial report	<u><u>2,085,134</u></u>

(e) Dilution of percentage ownership of subsidiary

On 15 May 2000, the parent entity's share of the equity of KUSP Ltd was diluted from 100% to 40%. The dilution was the result of KUSP Ltd's public share issue upon listing on the Australian Stock Exchange.

### 33 RELATED PARTIES

#### Directors

The Directors of Senetas Corporation Limited during the financial year were:

F.W. Galbally	Appointed 7 April 1999
A.R.Munday <sup>(1)</sup>	Appointed 4 February 2000
D.F. Hagans <sup>(2)</sup>	Appointed 30 July 1999
B.S. Lewin	Appointed 1 December 1999
P.S.Cook	Appointed 7 April 1999

<sup>(1)</sup> A.R.Munday is an alternate director to F.W.Galbally and P.S.Cook effective on 20 September 1999.

<sup>(2)</sup> J.M.McKellar is an alternate Non Executive Director to D.F.Hagans, effective, 1 February 2000.

#### Transactions of Directors and Director Related Entities

*Aggregate number of shares and options of Senetas Corporation Limited acquired or disposed of by directors of the company and consolidated entity or their director related entities from the company*

	Senetas Corporation Limited	
	2000	1999
<b>Acquisitions</b>		
Ordinary Shares	15,443,300	6,729,390
Options over Unissued Ordinary Shares	16,239,000	5,719,596
<b>Disposals</b>		
Ordinary Shares	(1,414,500)	(357,210)
Options over Unissued Ordinary Shares	(5,634,719)	-

*Aggregate number of shares and listed and unlisted share options of Senetas Corporation Limited held directly or indirectly or beneficially by directors of the company or the consolidated entity or their director related entities at balance date:*

	Senetas Corporation Limited	
<b>Ordinary Shares</b>	20,081,188	7,442,403
<b>Options over ordinary shares</b>	14,141,000	-

#### Other Transactions with directors and director related entities

(i) *Services provided by director-related entities under normal commercial terms and conditions:*

Clariti Communications Pty Ltd, of which Mr P.S.Cook is a director, provided telecommunications services to the company.

A Retainer was paid to Clariti Communications Pty Ltd for executive services provided by Mr.P.S.Cook. Mr Cook a director of Clariti Communications Pty Ltd.

Legal counsel and corporate advisory services were provided by SLM Corporate Pty Ltd, under retainer. Mr B. S. Lewin is a director and has an indirect beneficial interest in SLM Corporate Pty Ltd. SLM Corporate Pty Ltd also received commissions for introducing investors who participated in a capital raising in Senetas Corporation Limited.

The company acquired a minority interest in Surfboard Limited in which D.F.Hagans is an Executive Director.

During the year, the company acquired a 30% interest in DataEase Pty Ltd and loaned DataEase Pty Ltd \$237,500 in the form of a convertible note at a commercial interest rate. P.S.Cook, a director of the company, holds 5% of the ordinary share capital in DataEase Pty Ltd.

Mr P.C.Streder is a director and shareholder of Resorsco Management Pty Limited (Resorsco) which provided executive and administrative services to the company.

Services in connection with the management of the affairs of the company were provided by Meta Services International Pty Ltd. A.R.Munday is the sole director of Meta Services International Pty Ltd. Amounts paid to Meta Services International Pty Ltd have been included in Note 27 (located on Page 27), as Directors remuneration.

Services in connection with the management of the affairs of the company were provided by Corporate Services Management Pty Ltd. F.W.Galbally is a director of Corporate Services Management Pty Ltd.. F.W.Galbally is a director of Corporate Services Management Pty Ltd and amounts paid to this company have been included in Note 27 (located on Page 27), as Directors remuneration.

**Aggregate amounts of each of the above types of transactions with directors and director related entities:**

	Consolidated		Senetas Corporation Limited	
	2000	1999	2000	1999
Telecommunications	7,832	-	7,832	-
Legal fees	84,295	-	84,295	-
Executive Services	69,018	-	69,018	-
Commissions	65,000	-	65,000	-
Secretarial and administrative costs paid	-	21,995	-	21,995
Geological & administrative services paid	-	30,810	-	30,810
Geological services paid	-	1,587	-	1,587
Rental Paid	-	3,000	-	3,000

(ii) *Interests in the equity instruments of Senetas Corporation Limited held by directors of the reporting entity and their director-related entities at balance date, being the number of instruments held:*

	Senetas Corporation Limited and Consolidated	
	2000	1999
<b>Ordinary Shares</b>		
F.W. Galbally <sup>(1)</sup>	19,375,351	6,052,388
A.R.Munday <sup>(2)</sup>	473,000	-
D.F. Hagans <sup>(3)</sup>	200,000	-
B.S. Lewin <sup>(4)</sup>	27,000	-
P .S.Cook	5,837	-
<b>Listed and Unlisted Options over ordinary shares</b>		
F.W. Galbally	3,600,000	3,936,719
A.R.Munday	2,500,000	-
D.F. Hagans	2,650,000	-
B.S. Lewin	2,391,000	-
P .S.Cook	3,000,000	-

## Wholly-owned group

- (1) Mr F.W.Galbally has a relevant interest in 19,375,351 shares and 100,000 listed options in Senetas Corporation Limited. This relevant interest comprises 6,040,850 Senetas Corporation Limited shares by virtue of holding in excess of 20% of the issued capital of Corporate Services Management Pty Ltd, which has an actual interest in those shares, a relevant interest in 75,500 shares and 100,000 listed options and 3,500,000 unlisted options registered in the names of FW Galbally (as trustee for the Galbally Super Fund) and 13,259,001 shares registered in the name of GK Investments (Aust) Pty Ltd. Mr Galbally is a director and shareholder of GK Investments (Aust) Pty Ltd
- (2) Mr A.R.Munday has a relevant interest in 473,000 Senetas Corporation Limited shares which consists of 375,500 shares and 2,500,000 unlisted options held in the name of A.R.Munday, 60,000 shares registered in the names of A.R.Munday and P.L.Munday (as trustee for the Merlot Family Trust) and 37,500 shares registered in the names of A.Munday and P.Munday (as trustee for the Shiraz Superannuation Fund).
- (3) MR D.F.Hagans has a relevant interest in 200,000 Senetas Corporation Limited shares registered in the name of Callanish Interests Pty Ltd. Mr.D.F.Hagans is a Director and shareholder of Callanish Interests Pty Ltd. Mr D.F.Hagans has a relevant interest in 2,650,000 unlisted options over Senetas Corporation Limited shares.
- (4) Mr B.S.Lewin has a relevant interest in 27,000 shares and 91,000 listed options and 2,300,000 unlisted options over shares in Senetas Corporation Limited which consists of 27,000 shares registered in the name of B and E Lewin Investments Pty Ltd and 91,000 listed options registered in the name of B and E Lewin Investments Pty Ltd.

The wholly owned group consists of Senetas Corporation Limited and its wholly owned controlled entities, Senetas Corporation (S) Pte Ltd, eCryp Inc, Comcryp Inc, Webcryp Inc, ePil Pty Ltd, Webcryp Pty Ltd, World of.com Pty Ltd, Ryburg Pty Ltd. Ownership in these controlled entities are set out Note 13; Interests in Subsidiaries, located on Page 19 of this report.

	<b>Senetas Corporation Limited</b>	
	<b>2000</b>	<b>1999</b>
<i>Current Receivables</i>		
Loans to controlled entities	<b>1,621,506</b>	-

All loans were advanced on commercial terms and conditions. The weighted average interest rate is 8.22%.

## Other Related Party Transactions

*Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:*

On 22 March 2000, Senetas Corporation Limited paid \$33,333 for equity in KUSP Limited.

Interest free advances totalling \$350,000 were provided by Senetas Corporation Limited, the parent entity, to KUSP Limited, prior to KUSP Limited listing on the Australian Stock Exchange. The advances were repaid out of the proceeds of the float.

Advances of \$400,000 were provided by Senetas Corporation Limited to KUSP Limited, prior to listing. Interest of \$3,455 (9.33%pa) was charged on these advances. The advances and interest were repaid out of the proceeds of the float.

A payment of \$554,497 was paid by KUSP Limited to Senetas Corporation Limited for securing the RealityBuy license and the 'Touch and Feel' technology.

These transactions were based on commercial terms and conditions.

KUSP Limited makes regular rental payments for an operating lease commitment currently in the name of Senetas Corporation Limited. A transfer of this agreement to KUSP Limited is in progress.

An advance of \$237,500 was provided by Senetas Corporation Limited to DataEase Pty Ltd, an associate company, at an interest rate of 6.55%.

## 34 RESEARCH AND DEVELOPMENT SYNDICATION

On 19 December 1995, a controlled entity, Ryburg Pty Ltd ("Ryburg"), entered into a joint venture, the Advanced Antimony & Gold Extraction Technique Research & Development Syndicate ("AAGET") with a number of investors to develop a procedure to improve the recovery process of gold and antimony from sulphide ores at Indian Mining

Company NL's property at Costerfield in Victoria, Australia. The structure of the syndicate means that there is no ongoing economic or business exposure for Senetas. AAGET is currently in the process of being wound up. The winding up should be completed by 31 December 2000. The key features of the syndicate are as follows:

- The economic entity granted an exclusive core technology licence to AAGET syndicate members to apply the licensed technology in improving the recovery of gold and antimony from sulphide ore. Part of the licensed technology was sourced from Indian Mining Company NL under a sub-licence arrangement.
- All new technology, patents and know how resulting from the research will belong to the AAGET syndicate. However, the economic entity has the right to such developments to enable such benefits to be made available to existing and future licensees.
- External Investors ("Investors") have a 99% stake in the Syndicate with the remaining 1% being owned by Ryburg.
- The Syndicate appointed the economic entity to undertake the research and development on its behalf. The research and development program was completed on 4 July 1998.
- The Syndicate is managed by Macquarie Bank Limited.
- The research and development escrow account is interest bearing and the economic entity can withdraw monies in advance in accordance with an agreed schedule, to fund the research and development program.
- The Investors have the right to exercise a put option in respect of their controlled companies that invested in the Syndicate. The option is excisable on 11 January 2002 or before in the event of an early termination of the program or in the event of a default by the economic entity. The exercise of the put option will require the economic entity to acquire all the issued shares in the Investors' controlled entities for total consideration equal to the accumulated balance in the escrow account. If the put is exercised then the economic entity will have effective ownership of all intellectual property developed by the Syndicate and will be entitled to all royalties payable to the Syndicate. If the project is a commercial success, the Investors may elect to let their put options lapse. In the event that the put options are not exercised any monies remaining in the escrow account will accrue to the economic entity.
- Certain royalty payments may be made to the Syndicate members prior to 11 January 2002. In this event, the after tax amount of these payments will be applied to reduce the put option price. The reduction in the present value of the put option liability as a result of these royalty payments will be recognised in the year in which they become payable.
- The economic entity has been granted an exclusive marketing right until 31 December 2002 by the Syndicate members over their interest in the research results to undertake the commercialisation and further development of the technology.
- The syndicate may be terminated in a number of circumstances which include:
  - (a) Failure of the Investors to be registered or ceasing to be registered under Section 39P of the Industry & Development Act in relation to the project or failure to comply with other considerations subsequent;
  - (b) Cancellation of the research and development program in accordance with the transaction documents;
  - (c) The exercise of the put option by the Investor; or
  - (d) The occurrence of any event of default on the part of either Ryburg or the economic entity. The specified events of default include predominantly standard provisions regarding failure to pay, breach of obligations under the transaction documents, representations, warranties or statements proving to be untrue in any material respect, the occurrence of the events in a winding up or an insolvency context, and any other event which in the reasonable opinion of the Investors has affected or is likely to affect the ability of the economic entity to comply with all or any of its obligations under the transaction documents.

## 35 FINANCIAL INSTRUMENTS

### Net fair values

The economic entity's accounting policies are included in Note 1. The terms and conditions of each class of financial asset, financial liability and equity instrument at the balance date have been included in each of the respective notes. All financial assets and liabilities have been recognised at the balance date at their net fair values except for investments and one contingent liability. The contingent liability involves the issuance of promissory notes and information is detailed below.

Recognised Financial Instruments	Balance Sheet Notes including Terms and Conditions	Net Fair Values
<b>a) Financial Assets</b>		
Cash, cash equivalents and short-term deposits	1, 5	The carrying amounts approximate fair value because of their short-term to maturity.
Trade receivables	1, 5	The carrying amount approximates fair value.
Receivable – escrow deposit to securitise put option	1, 5	Monies received have been deposited in a fixed interest bearing escrow account. The carrying amount approximates fair value.
Loans receivable	1, 5	The carrying amount approximates fair value.
Current and non-current investments and securities	6, 12	For financial instruments traded in organised financial markets, fair value is the current quoted market price. For unlisted investments, a reasonable estimate of fair values is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security. The fair values for the class of listed shares at balance date was \$587,239. The fair values for the class of investments at balance date where there is no quoted market price was \$12,238,204.
<b>b) Financial Liabilities</b>		
Trade payables and sundry creditors and accruals	1, 16	The carrying amount approximates fair value.
Short term borrowings	1, 17	The carrying amounts approximate fair value because of their short-term to maturity.
Long term borrowings	1, 20	The carrying amount of hire purchase and finance lease liabilities approximates fair values.
<b>c) Unrecognised financial instruments</b>		
Contingent liability - promissory notes		Total carrying amount as per the Balance Sheet is \$nil. The net fair value cannot yet be determined as it is based on a future event.

## 35 FINANCIAL INSTRUMENTS (continued)

### Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, at the balance date, are as follows:

	Fixed Interest Rate		Non-Interest Bearing		Total Carrying Amount as per the Balance Sheet	
	2000	1999	2000	1999	2000	1999
<b>a) Financial Assets</b>						
Cash	1,000,000	1,568,433	10,392,538	-	11,392,538	1,568,433
Receivables	-	-	790,096	-	790,096	-
Bills of exchange	6,032,450	-	-	-	6,032,450	-
Short term deposits	7,237,675	-	-	-	7,237,675	-
Receivables - other	-	-	86,883	46,047	86,883	46,047
Receivables - escrow	8,420,891	8,041,068	-	-	8,420,891	8,041,068
Receivables – related parties	-	-	237,500	-	237,500	-
Listed share investments	-	-	476,173	4,403	471,770	4,403
Unlisted investments	-	-	12,238,204	-	12,238,204	-
Unlisted options	-	-	-	50,000	-	50,000
Total financial assets	22,691,016	9,609,501	24,222,089	100,450	46,913,105	9,709,951
<b>b) Financial Liabilities</b>						
Trade payables and sundry creditors and accruals	-	-	1,734,861	130,282	1,734,861	130,282
Finance lease liability	124,689	7,228	-	-	124,689	7,228
Hire purchase liabilities	106,633	-	-	-	106,633	-
Total liabilities	231,322	7,228	1,734,861	130,282	1,966,183	137,510

### Fixed Interest Rate Maturing in:

	1 year or less		Over 1 to 5 years		Total	
	2000	1999	2000	1999	2000	1999
<b>a) Financial Assets</b>						
Cash	1,000,000	1,568,433	-	-	1,000,000	1,568,433
Bills of exchange	6,032,450	-	-	-	6,032,450	-
Short term deposits	7,237,675	-	-	-	7,237,675	-
Receivables - escrow	8,420,891	-	-	8,041,068	8,420,891	8,041,068
<b>b) Financial Liabilities</b>						
Finance lease liability	50,297	7,228	74,392	-	124,689	7,228
Hire purchase liabilities	39,202	-	67,431	-	106,633	-

**Credit risk exposure**

The economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

**36 EARNINGS PER SHARE**

	<b>2000</b>	<b>1999</b>
(a) Basic earnings per share (cents per share)	(6.96)	(7.6)
Diluted earnings per share (cents per share)	n/a	(6.3)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share.	79,392,408	17,651,171

**37 OUTSIDE EQUITY INTEREST**

	<b>2000</b>	<b>1999</b>
Reconciliation of outside equity in controlled entities:		
Opening balance	-	-
Add share of acquisition of controlled entities	1,947,376	-
Add share of controlled entity from public issue	5,584,464	-
Less share of operating loss	(600,043)	-
Closing balance	<u>6,931,797</u>	<u>-</u>

**38 EVENTS OCCURRING AFTER BALANCE DATE**

Since 30 June 2000, the company announced the acquisition of Alta Internet Business Centres Pty Ltd by Interpath Communications Inc (Interpath), a US based company. The acquisition resulted in a scrip exchange with Senetas receiving 1.35% of the outstanding shares of Interpath Inc in exchange for its 45% interest in Alta.

Since 30 June 2000, eCryp Inc, a wholly owned entity of the parent entity, completed a capital raising for US \$2m for approximately 10% of eCryp Inc's issued share capital.

Since 30 June 2000, the Board of Senetas Corporation Limited announced that in a Joint Venture with a Malaysian technology investor, PRIXM.com, it had established a Singapore based pan-Asian wireless applications and software development company, NET:WxS Pte Ltd (NETWxS). Upon completion of the agreement Senetas and PRIXM.com would each invest an initial S\$2 million for a 50% stake each in NETWxS..

Since 30 June 2000, Senetas Corporation has increased its investment in the Melbourne-based software development house DataEase Pty Ltd (DataEase) from 30% to 57%. As part of the restructuring, an outstanding loan of \$237,500 will be repaid to Senetas and Senetas will contribute a further \$437,500 in equity capital.

On 7 August 2000, a general meeting of KUSP Limited's members was held to approve the establishment of an employee share option plan.

On 21 July 2000 an agreement was signed with Spotlight Online Pty Ltd and involves KUSP Limited assisting with the development of their new front and back end solutions including the integration of legacy systems. The contract will generate minimum revenues to KUSP Limited of \$807,000.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Senetas Corporation Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Law, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations; 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.

On behalf of the Board



Francis W Galbally  
Director

Melbourne, September 2000

# INDEPENDENT AUDIT REPORT



120 Collins Street  
Melbourne VIC 3000  
Australia  
GPO Box 678  
Melbourne VIC 3001

Tel: 61 3 9288 8000  
Fax: 61 3 9654 6166  
DK 193 Melbourne

## INDEPENDENT AUDIT REPORT

To the members of Senetas Corporation Limited

### Scope

We have audited the financial report of Senetas Corporation Limited for the financial year ended 30 June 2000, including the Profit and Loss Statement, Balance Sheet, Statement of Cash Flows, Notes to the Financial Statements and the Directors' Declaration. The financial report includes the financial statements of Senetas Corporation Limited and the consolidated financial statements of the consolidated entity comprising Senetas Corporation Limited and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial report of Senetas Corporation Limited is in accordance with:

- (a) the Corporations Law including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Ernst & Young

Don Brunley  
Partner  
Melbourne

Date: 25 September 2000



Liability is limited by the Accountants' Scheme in NSW

**ASX ADDITIONAL INFORMATION****Share Register Statistics as at 8 September 2000**

Twenty largest shareholders as at the above date are as follows:

<b>Name</b>	<b>Number of Ordinary Shares Held</b>	<b>% Of Issued Shares</b>
Doravale Enterprises Pty Ltd	40,000,000	23.04
GK Investments (Aust) Pty Ltd	13,259,001	7.64
Nidrik Pty Ltd	8,816,786	5.08
Corporate Services Management Pty Ltd	5,000,000	2.88
Southport Investments Ltd	3,000,000	1.73
Mr Michael Melville Kirwan	2,769,343	1.60
Allendale Investments Ltd	1,502,000	0.87
Citicorp Nominees Pty Limited	1,362,412	0.78
Educational Writing Boards of Australia Pty Ltd	1,359,891	0.78
Eucalip Bio Chemical Group Pty Ltd	1,357,971	0.78
Ms Marsha Caroline Tauber	1,356,756	0.78
Plaisance Pty Ltd	1,080,000	0.62
Fielddon Pty Ltd	1,020,018	0.59
Mrs Julie Anne James	910,000	0.52
Leslie Webb	783,895	0.45
Walumba Pty Ltd	730,000	0.42
Nawrik Investments Pty Ltd	670,000	0.39
Permax Pty Ltd	639,000	0.37
R L Webb Nominees Pty Ltd	630,191	0.36
Narrogal Pty Lt d	580,000	0.33
<b>Total Top 20 Holders</b>	86,690,264	49.93
<b>Remaining holdings</b>	86,897,860	50.07
<b>Total Issued Capital</b>	<b><u>173,588,124</u></b>	<b><u>100.00</u></b>

Twenty largest listed option holders as at the above date are as follows:

Name	Number of Options Held	% Of Issued Listed Options
Miss Berlinda Zanzerl	185,000	5.21
Mr Stephen Chaplin	155,000	4.37
Harper Allen Enterprises Pty Ltd	146,000	4.11
Ms Christine Webb	123,493	3.48
Take Stock Pty Ltd	101,352	2.85
Mr Francis William Galbally (Galbally Super Fund Account)	100,000	2.82
B & E Lewin Investments Pty Ltd (B & E Lewin Super Fund Account)	91,000	2.56
Trust Company of Australia Ltd	90,000	2.53
Mr Malcolm Hugh McPhail	70,401	1.98
Take Stock Pty Ltd	67,568	1.90
Perpetual Custodians limited	50,000	1.41
Mr Anthony John Vetter	50,000	1.41
National Australia Trustees Limited	45,000	1.27
Mr William Maxwell Wheatley & Mrs Valerie Wilma Wheatley	43,884	1.24
Lawrences motors Pty Ltd	40,000	1.13
Rosmar Investments Pty Ltd	40,000	1.13
Mr Robert William Waterhouse	40,000	1.13
Copahope Pty Limited	35,000	0.99
Dr David Morgans	35,000	0.99
Redcap Roasters Pty Ltd	33,784	0.95
<b>Total Top 20 Listed option Holders</b>	<b>1,542,482</b>	<b>43.46</b>
<b>Remaining Holdings</b>	<b>2,008,397</b>	<b>56.54</b>
<b>Total Issued Listed Options</b>	<b><u>3,550,879</u></b>	<b><u>100.00</u></b>

Distribution of Equity Securities

	Fully Paid Ordinary Shares	Quoted Options
Total holders	10,759	344
Aggregate holding of top 20 holders	49.93%	43.46%
Holders of less than a marketable parcel	1,968	55
Aggregate of shares held by holders of less than a marketable parcel	796,919	20,096

  

Range	Shareholders	%	Option holders	%
1 – 1,000	2,744	0.90	64	0.82
1,001 – 5,000	4,661	7.91	120	11.29
5,001 – 10,000	1,838	8.57	91	21.46
10,001 – 100,000	1,411	21.13	65	49.90
100,001 – and over	105	61.49	4	16.54

### *Voting Rights*

The holders of fully paid ordinary shares have one vote per shareholder on a show of hands. On a poll, each fully paid ordinary share carries one vote.

Options quoted on Australian Stock Exchange limited and unquoted options issued under the company's Employee Share/Option Plan have no voting rights, but fully paid ordinary shares issued upon exercise of such options have the same voting rights as all other fully paid issued ordinary fully paid shares then on issue.

### *Substantial Shareholders*

Substantial shareholders of the company are as follows:

Francis William Galbally has disclosed that he and his associates have a relevant interest in 18,334,501 fully paid ordinary shares representing voting power of 10.43%

Michael Melville Kirwan has disclosed that he and his associates have a relevant interest in 31,675,198 fully paid ordinary shares representing voting power of 19.13%

### *Unquoted Securities*

There are 21,995,000 options issued to 6 Directors and 22 employees under the company's Employee Share/Option Plan.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Senetas Corporation has responsibility for guiding the business affairs of the group in the best interest of all shareholders.

This statement outlines the main corporate governance practices that were followed during the financial year by directors in fulfilment of their duties

### **Board composition**

The Board is presently composed of five people of whom two are executives of the company and three are non-executive directors.

The composition of the Board is set with regard to the range of experience, skills and knowledge necessary for the achievement of the company's business objectives.

Responsibility for the operations and administration of the company is delegated by the Board to the Chief Executive Officer who, with his senior management team, reports to the Board and is accountable to it.

### **Board Meetings**

The Board meets monthly and on other occasions as circumstances require. At these meetings, management provides detailed financial, operational and strategic reports to directors and seeks approval for specific proposals outside its delegated authority.

In addition to monthly meetings, a comprehensive review of Company strategy and business plans are carried out annually.

### **Board appraisal**

The Board continually reviews the processes by which it undertakes its responsibilities but also carries out a formal review of its performance in meeting its key responsibilities each year.

This review is to identify any areas of weakness and mechanisms for improving the functioning and performance of the Board and to focus on specific performance objectives for the year ahead.

### **Audit Committee**

The Board has an audit committee comprising Mr P. Cook (Chairman), Mr B. Lewin and Mr A. Munday. Audit committee meetings are attended by the Company's external audit partner and relevant company executives.

The primary responsibility of the committee is to assist the Board in fulfilling its responsibilities relating to accounting and reporting practices and its management of business risk.

The committee meets at least four times per year and, in the absence of management, with the external auditor at least once a year.

### **Risk Management**

Directors are committed to rigorously identifying, monitoring and managing risks associated with business activities through timely reporting of business activities, oversight of investment and capital spending policies and budgeting and planning for financial outcomes.

As the company continues to develop, it is the intention of directors to review the risk management policies with a view to putting in place any changes which might be necessary.

### **Remuneration**

The fees payable to non-executive directors are determined by the Board within the aggregate amount approved by shareholders.

Non-executive members of the Board review and approve the levels of remuneration of senior executives after taking account of their responsibilities and levels applying to similar positions in comparable companies.

## **Shareholders**

The Company's shareholders vote on the appointment of directors. At each Annual General Meeting, one of the three non-executive directors is required to retire and may stand for re-election. Directors who fill casual vacancies are required to be elected at the first Annual General Meeting following their appointment by the Board.

The Board seeks to inform shareholders of all major developments affecting the Company through:

- the annual report;
- the Annual General Meeting at which shareholders receive reports from the Board and can ask questions about the Company's activities;
- disclosures to the Australian Stock Exchange;
- the internet (www.Senetas.com);
- periodic newsletters and other communications directed to shareholders; and,
- notices and explanatory memoranda when submitting major proposed changes in the Company's affairs to a vote of shareholders.

Shareholders are encouraged generally to communicate issues or ask questions concerning the Company's activities. All shareholders asking such questions must receive a prompt and courteous response.

## **Ethical Standards**

Directors and officers are required to observe the highest standards of ethical behaviour in their dealings with employees, suppliers, business partners and the general community and, at all times, meet the requirements of company legislation and the listing rules of the Australian Stock Exchange.

## **Conflicts of Interest**

The Board defines a material personal interest widely to include an interest capable of influencing or perceived by others to influence the director's judgment.

Where a matter is being considered by the Board in which a director has a personal interest, the director may not be present while the matter is being considered, may not vote on the matter and does not receive copies of any relevant papers.

The procedures adopted by the Board require that, in the event of any potential conflict of interest, any director concerned must accept the ruling of the Board or, in the case of sensitive matters, the Chairman as to the existence of a material personal interest.

## **Independent Professional Advice**

Directors have the right to seek independent professional advice at the expense of the company in furtherance of their duties as directors subject to the prior approval of the Chairman. If the Chairman refuses to give approval, the full Board (or, in the case of an executive director, all the non-executive directors) would be consulted for approval.

## **Sale/Purchase of shares**

It is the responsibility of each Director and other officers to ensure that they act in compliance with all laws relating to insider trading. Directors must notify the other members of the Board before buying or selling shares in the company. Such notification in no way implies approval of any transaction. Similar notification is required to be given to the Chief Executive Officer by senior managers who purchase or sell shares.

**BOARD OF DIRECTORS****Francis Galbally – Chairman and Group Chief Executive Officer**

Mr Galbally is 47 years old. He graduated from Law with first class honours from Melbourne University in 1975. From 1976 until 1994, Mr Galbally practised as a Barrister and Solicitor of the High Court of Australia and Supreme Courts of Victoria and New South Wales. From 1979 until 1994, Mr Galbally was a practising Partner in Galbally and O'Bryan Solicitors. From 1994 until April 1999, he was the Chief Executive Officer of Finance Express Home Loans Pty Ltd (a wholesale mortgage management business).

Mr Galbally has extensive experience in corporate, commercial and taxation law and has a business background ranging from the property and hospitality industries to the insurance and finance industries. He is the Chairman, Group Chief Executive Officer and Company Secretary of Senetas Corporation Limited. He joined the Board in April 1999.

**Alan Munday- Director and Group Chief Operating Officer**

Alan Munday is 42 years old. He holds a Bachelor of Arts, Graduate Diploma in Business, Masters in Industrial and Employee Relations and certificates from the Computer Institute, USA National Defense University. He has partially completed his MBA.

Mr Munday has extensive management experience ranging from logistics and transport operations, industrial relations, data systems development and IT project management. He received the USA Meritorious Service Medal for his work in the US Defense Department Perdimms and EDAS systems and their early connection on the USA Defense Data Network. He has spent most of the last 10 years as a management consultant, helping businesses to develop strategic and operational business plans to improve productivity. Mr Munday has recently concluded four very successful years in corporate sales and business development. He is a Fellow of the Society of Senior Executives and a Member of the Australian Institute of Management. He is Group Chief Operating Officer and a director. He joined the board in February 2000.

**Donald Hagans - Director**

Mr Hagans is 53 years old. Mr Hagans was educated at the University of Texas, receiving Bachelor of Arts and Doctor of Jurisprudence Degrees and served as an Officer in the U.S. Marine Corps. He has extensive experience in media and communications.

Mr Hagans was previously Executive Chairman of Austar United, one of Australia's largest pay television and programming companies as well as Chief Executive of Cable and Wireless Optus Multi-Media. Mr Hagans has also held a number of policy and industry positions, including Chairman of ABA/net, the American Bar Association's on-line professional service, Chairman of the Law Practice Management Section of the ABA, and Chairman of ASTRA, Australia's Subscription Television and Radio Association. He has been a non-executive director of Senetas since July 1999.

**Peter Cook- Director**

Mr Cook is 40 years old. He holds a Bachelor of Science degree, a Graduate Diploma in Computing and a Graduate Diploma in Securities from the Securities Institute of Australia.

He is a Graduate of the Royal Military College, Duntroon and has had an extensive and successful track record in the establishment, development and management of fast-growth telecommunications service companies.

He is a Board Member of the Service Provider Industry Association Inc and was appointed to the Board of Senetas as a non-executive director in April 1999.

**Barry Lewin- Director**

Mr Lewin is 42 years old. He holds Bachelor of Commerce and LLB degrees from the University of Cape Town, South Africa and has an MBA from Swinburne University in Australia.

He is the managing director of the Melbourne-based corporate advisory firm SLM Corporate, which he founded in 1999. Previously he spent twelve years as in-house counsel to some of Australia's leading public companies, such as North Limited and Energy Resource of Australia Limited, during which time he managed their legal interests in Australia and internationally.

Between 1994 and 1999, Mr Lewin served as General Counsel, Company Secretary and a member of the Executive Committee of North Limited, a major international resources company. He is currently an advisor to a number of public and privately owned companies. He has been a non-executive director of Senetas since December 1999.