MIKOH Corporation Limited

ACN 003 218 862

Annual financial report for the financial year ended 30 June 2009

Contents

Managing Director's review

Ongoing international instability and the global economic downturn have put security front and centre as an issue of the highest importance – at both the national and personal levels.

As a result there is a growing need for improved physical and information security in government and commercial operations. MIKOH's technologies are better positioned than ever to meet this need.

We continue to believe firmly that sales channels via established resellers will provide the most efficient route to high-volume deals, even though the up-front time investment to develop a sales channel is considerable, and we are more tightly focused than ever on building sales – particularly in the US – via channel partners that are dominant in their respective markets. Good progress has been made in this regard during the past twelve months, and the results will become increasingly evident in 2009/10.

We have reversed MIKOH's financial downturn of the prior year, with overheads cut and group revenues totalling $1.25 million for the year ending 30 June 2009, up from $674,000 for the previous year. The net loss for the year was $4 million compared with a loss of $4.9m in FY2008/09.

Royalties for Automated Vehicle Identification ("AVI") started to flow this year from our technology partner Sirit Inc, which operates primarily in North and South America. We are confident that these revenues will increase significantly over the coming year as AVI - in particular Electronic Vehicle Registration ("EVR") and tolling applications, in which MIKOH holds first-mover status as a provider of physical security - is increasingly recognised by governments as an attractive annuity-based revenue stream. Over thirty countries are currently considering EVR, representing in excess of 500 million vehicles. While EVR deals tend to be slow to close, they are important in that they generate recurring revenue as tags are replaced on average every 2-3 years. Physical security is critically important for most vehicle tags, and MIKOH's patent-protected Smart&Secure technology continues to be the most secure solution for passive RFID in the marketplace.

A further development in the Smart&Secure business during the past year was the investment in SecureContainer and the partnership with US based ruggedised case manufacturer, Pelican. As previously reported, MIKOH is actively targeting US Government security applications. We successfully completed a trial retrofit of our secure closure device for a key US government agency, and are currently working on larger SecureContainer opportunities within the US government. Tooling for the injection moulded SecureContainer closure devices and inserts has been installed at MIKOH's California-based contract manufacturer, and the product is now market ready. Further, and more recently, we have engaged one of Pelican's largest value-added resellers, under licence, to distribute our SecureContainer technology into the US Government. Although at a very early stage, the relationship has already resulted in sales of 1000 units for use in the war in Afghanistan.

Revenue for the Smart&Secure division was $208,880 for the year ended 30 June 2009 and, as it takes up its place as the mainstay of our business, is expected to increase more than ten-fold in 2009/10.

The demand for SubScribe, MIKOH's suite of low-cost visual tamper evident labels and seals, is steady. Revenue for this technology for FY2008/09 was $253,418 and our expectation is for this to increase to approximately $0.8 million in FY2008/09, largely driven by some SecureContainer applications and the increasing demand for security seals and authentication labels. Orders already received since 30 June 2009 give confidence that the 2009/10 year will yield record revenues for SubScribe.

The digital and secure print facility in Melbourne was reconfigured this year to introduce production efficiencies and allow for the development of a range of new products to address additional markets, such as the fast moving consumer good ("FMCG") sector. Revenue from the Printers division was $783,325 for the reported year. Expansion into new markets is expected to result in an increase in revenues to over $2 million for FY2009/10.

Overall, I am very confident of our strategy and positioning. We have a number of substantial opportunities developing, which I expect to be able to report on during the coming months. Our revenue goal of $5.3 million for 2009/10 is achievable on the basis of sales conversion of already identified opportunities. MIKOH is moving towards being cash flow positive, and expects to be at breakeven during calendar 2010.

I thank shareholders for their loyalty, evidenced in part by the near 75% take-up of the rights issue in June 2009, and look forward to reporting on future successes.

Matt Blomfield
Managing Director and Chief Executive Officer
MIKOH Corporation Limited

Directors' report

The directors of MIKOH Corporation Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Mr Peter Lyndon Tyree FTSE; Hon FIEAust; CPEng – Chairman

Mr Tyree was appointed as both a non-executive Director of the company, and Chairman, on 2 June 2009. He is also a member of the recently formed Remuneration Committee. Peter has been CEO and is immediate past Chairman of the Tyree Group, one of Australia's largest private companies, overseeing its exceptional growth for over twenty years. As an electrical engineer, Peter has been recognised as one of Australia's top engineers in business by Engineers Australia, and brings a great deal of experience to the MIKOH Board in both domestic and international affairs.

Mr James Matthew Blomfield – Managing Director and Chief Executive Officer

Mr Blomfield was appointed as Chief Executive Officer on 17 November 2004 and as Managing Director on 1 December 2004. He is a member of the Remuneration Committee. Mr Blomfield has held senior executive positions with technology companies for over 20 years, including being Managing Director of Cadds Man Limited, and a director of ISR Holdings Limited. Prior to joining MIKOH Mr Blomfield ran his own consultancy business providing strategic advice to several technology companies in the Asia-Pacific, USA and Europe.

Mr Douglas James Halley, MBA, B.Com, FAICD, FRT – Non-executive director

Mr Halley was appointed a non-executive Director of the company on 12 January 1988, and was Chairman from 24 May 2006 until 2 June 2009. He is a member of the Audit Committee. Mr Halley has held senior executive positions in a number of major companies over the past 25 years (including The Thomson Corporation, IBM, John Fairfax Holdings, Goodman Fielder, Rothschild Australia, Hill Samuel Australia and Philips) covering finance, treasury, business development and general management. He has also held directorships of listed companies, including John Fairfax Holdings and Television & Media Services, and has been a director of the ASX-listed Diversified Utility and Energy Trust since 2006. In addition, Mr Halley is Chairman of Aurora Community Television and Print & Digital Publishing Pty Ltd, and Chairman of the Advisory Board of Australian Enterprise Holdings Pty Ltd.

Dr John Stanley Keniry AM B.Sc PhD FTSE FRACI FAICD – Non-executive director

Dr Keniry was appointed a non-executive Director of the company on 11 March 1994, and was Chairman of the Audit Committee until standing down from that Committee in July 2009, when he became Chairman of the newly established Remuneration Committee. Dr Keniry has extensive experience in business and presently holds a number of directorships in both public and private sector companies. He is a former president of the Australian Chamber of Commerce and Industry, and a former member of the Prime Minister's Science, Engineering and Innovation Council, and the Australian Government's Industrial Research and Development Board. During the last three years Dr Keniry has also served as a director of the following listed companies:

Ridley Corporation Limited (since 1990)
First Opportunity Fund Limited (since 1999)
Biosignal Limited (2004-2009)
Australian Biodiesel Group Limited (2005-2008)

Mr Richard Owen Holcomb B.S., M.S. – Non-executive director

Mr Holcomb was appointed a non-executive Director on 14 June 2006. Mr Holcomb, the company's first non-Australian director, resides in North Carolina, USA, is founder and chairman of StrikeIron, a web services company, and has been founder and director of several successful technology companies. He is currently a venture partner for the Aurora Funds in Durham, North Carolina, and serves on the boards of several local technology companies, both private and public. He also serves on several advisory boards including the NCSU Graduate School Board of Advisors, and is a former appointed member of the North Carolina Information Resource Management Commission and the Council for Entrepreneurial Development, and a former Chairman of the North Carolina Electronics and Information Technology Association.

Mr Riad Tayeh B. Econ., CA – Non-executive director

Mr Tayeh was appointed a non-executive Director on 23 March 2009, and was appointed Chairman of the Audit Committee on 30 July 2009. His background includes periods working with Coopers & Lybrand and Ferrier Hodgson, where he specialised in corporate restructures, financial investigations, and turnaround strategies. He is now a partner in de Vries Tayeh, a chartered accounting practice. He has extensive experience assisting companies with growth and restructuring strategies to maximise shareholder return. Mr Tayeh has assisted many companies in the SME sector to develop enterprise value by growing revenues while containing costs, resulting in an increase in shareholder value. He is a Past President of the Turnaround Management Association of Australia.

Directorships of other listed companies

No director has held a directorship of another listed company in the three years immediately before the end of the financial year, except as disclosed above.

Company secretary

Mr Gary Michael Phipps B.Comm, CPA

Mr Phipps joined Mikoh Corporation Limited on 12 December 2005 as Financial Controller, and was appointed Company Secretary on 3 March 2006. As Financial Controller and Company Secretary, he is responsible for the corporate administration, financial management and corporate governance practices of the company. Mr Phipps has over 20 years experience in various senior financial management roles in listed and private companies. He has worked across a broad range of industries including transport, health care, entertainment, and communications. Mr Phipps is an Affiliate of Chartered Secretaries Australia and has completed a Graduate Diploma in Applied Corporate Governance.

Principal activities

The principal activities of the consolidated entity during the financial year consisted of:

- the development, marketing and commercialisation of security oriented identification, authentication and information storage technologies; and
- the manufacture and sale of digital ink-jet imaging machines for the commercial printing industry

Review of operations

Total revenue for the year ending 30 June 2009 increased by 61.8% to $1,291,820, while operating revenue was up 84.8% to $1,245,623. When combined with substantially lower indirect expenses than the prior year, a net loss of $4.02M was recorded compared with a loss of $4.91m in 2007/08.

Smart&Secure

A key development for the Smart&Secure division this year was that royalties for Automated Vehicle Identification ("AVI") started to flow from the company's technology partner Sirit Inc, which operates primarily in North and South America. While revenues to date have been low, much progress has been made and the company is confident that revenue improvement will be significant over the following twelve months.

A further development during the period was the investment in SecureContainer and the partnership with the US based case manufacturer, Pelican. As previously reported MIKOH is actively targeting US Government security applications, and has successfully completed a trial retrofit of its secure closure device for a key government agency.

Revenue for this division was $208,880 for the year ended 30 June 2009 and is forecast to increase to approximately $2.2 million for the following year.

SubScribe

Revenue for this division was $253,418, down 17.2% on the prior year, the one area of MIKOH's business where the general economic slowdown had an obvious effect. Substantial orders have been received since year-end, however; so strong revenue growth is expected in 2009/10. MIKOH currently supplies product to over twenty countries, and it is anticipated that revenue growth will flow from greater penetration in existing markets.

Variable Data Inkjet Printers

The reconfiguration of the Printers Division is complete, with results starting to flow. Revenue from this division was $783,325 for the year ended 30 June 2009. The developments across this division will yield production efficiencies, and the identification of a niche market in the fast moving consumer good ("FMCG") sector is expected to assist in revenue growing to a forecast $2.2 million for 2009/10.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or the notes thereto.

Subsequent events

On 17 September 2009 a private placement of 22,784.810 shares were made at a price of $0.079 per share totaling $1,800,000.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Dividends

No dividends were paid during the year. The directors do not recommend the payment of a dividend.

Share options

Share options granted to directors and executives

During and since the end of the financial year 3,500,000 share options (2008: 2,000,000) were granted to the following directors and executives of the company and the consolidated entity as part of their remuneration:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Gary Phipps	500,000	MIKOH Corporation Limited	500,000
Gary Phipps	500,000	MIKOH Corporation Limited	500,000
Steven Van Fleet	500,000	MIKOH Corporation Limited	500,000
Steven Van Fleet	500,000	MIKOH Corporation Limited	500,000
Neil Mitchell	500,000	MIKOH Corporation Limited	500,000
Neil Mitchell	500,000	MIKOH Corporation Limited	500,000
David Rodriguez	250,000	MIKOH Corporation Limited	250,000
David Rodriguez	250,000	MIKOH Corporation Limited	250,000

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option $	Expiry date of options
MIKOH Corporation Limited	2,000,000	Ordinary	0.10	31 March 2010
MIKOH Corporation Limited	1,000,000	Ordinary	0.15	31 March 2010
MIKOH Corporation Limited	1,000,000	Ordinary	0.20	31 March 2010
MIKOH Corporation Limited	500,000	Ordinary	0.15	31 August 2011
MIKOH Corporation Limited	500,000	Ordinary	0.25	31 August 2011
MIKOH Corporation Limited	3,000,000	Ordinary	0.15	31 August 2011
MIKOH Corporation Limited	3,000,000	Ordinary	0.25	31 August 2011
MIKOH Corporation Limited	3,000,000	Ordinary	0.30	10 January 2012
MIKOH Corporation Limited	1,000,000	Ordinary	0.50	11 May 2012
MIKOH Corporation Limited	1,000,000	Ordinary	0.80	11 May 2012
MIKOH Corporation Limited	1,125,000	Ordinary	0.50	28 May 2012
MIKOH Corporation Limited	1,125,000	Ordinary	0.80	28 May 2012
MIKOH Corporation Limited	125,000	Ordinary	0.80	31 March 2013
MIKOH Corporation Limited	125,000	Ordinary	1.20	31 March 2013
MIKOH Corporation Limited	1,750,000	Ordinary	0.20	31 July 2014
MIKOH Corporation Limited	1,750,000	Ordinary	0.40	31 July 2014

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

No shares or interests were issued during or since the end of the financial year as a result of the exercise of an option.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 18 board meetings and 2 audit committee meetings were held.

	Board of directors		Audit committee	
Directors	Held	Attended	Held	Attended
PL Tyree	1	1		
JM Blomfield	18	18		
DJ Halley	18	18	2	2
JS Keniry	18	18	2	2
RO Holcomb	18	15		
R Tayeh	6	6		

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the company or a related body corporate as at the date of this report.

		Fully paid ordinary shares	Share options
Directors		Number	Number
P L Tyree		2,125,000	-
J M Blomfield		1,193,132	10,000,000
D J Halley		16,335,473	1,000,000
J S Keniry		5,136,271	1,000,000
R O Holcomb		-	1,000,000
R Tayeh		1,400,000	-

Remuneration report

Director and executive details

The following persons acted as directors of the company during or since the end of the financial year:

- P L Tyree (Chairman from 2 June 2009)
- J M Blomfield (Managing Director and Chief Executive Officer)
- D J Halley (Chairman until 2 June 2009, Non-Executive Director)
- J S Keniry (Non-Executive Director)
- R O Holcomb (Non-Executive Director)
- R Tayeh (Non-Executive Director from 23 March 2009)

The Group executives of MIKOH Corporation Limited were:

- P S Atherton (Chief Technology Officer) (MIKOH Corporation)
- G M Phipps (Company Secretary and Financial Controller)
- H Van Pelt (General Manager - Australia from 8 December 2008)
- S R Van Fleet (Vice President Sales and Business Development) (MIKOH Corporation)
- A M Strauch (Vice President Product Marketing and Management until 30 April 2009) (MIKOH Corporation)

Remuneration policy

Due to the relatively small size of the consolidated entity, the Board has only formed a separate Remuneration Committee in July 2009. In the year ending 30 June 2009 the Board of Directors was responsible for determining and reviewing compensation arrangements for the directors, the Managing Director, and the senior management team. The Board of Directors assesses the appropriateness of the nature and amount of remuneration of directors and senior management on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

<u>Non-executive directors</u>

The Board seeks to set aggregate remuneration at a level which provides the consolidated entity with the ability to attract and retain directors of the highest calibre, while incurring a cost which is acceptable to shareholders. The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors' fees are within the maximum aggregate limit of $100,000 per annum as agreed to by shareholders at the General Meeting held on 30 May 2005. Non-executive directors do not receive performance based bonuses, however given the relatively low director's fees paid in cash the board believes that the issue of share options to non-executive directors on occasion more accurately reflects the time and responsibilities of office.

As at the date of this report the Chairman receives no remuneration, and other non-executive directors receive $20,000 per annum plus 9% statutory superannuation. A remuneration package for the chairman will be put to shareholders for approval at the 2009 Annual General Meeting, and will become effective once approved.

Executive directors and senior management
The consolidated entity aims to reward executives with a level and mix of remuneration commensurate with their positions and responsibilities and so as to:

- reward executives for consolidated entity and executive performance;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the consolidated entity; and
- ensure total remuneration is competitive by market standards.

Remuneration consists of the following key elements:

- fixed remuneration; and
- performance based remuneration

The proportion of fixed remuneration and performance-based remuneration is established by contract and provides for annual review by the Board of Directors.

The level of fixed remuneration, which includes base salary and statutory superannuation, is set so as to provide a base level of remuneration which is both appropriate to the position and competitive in the market. Fixed remuneration is reviewed in accordance with contract terms by the Board of Directors. The process consists of a review of companywide and individual performance, relevant comparative remuneration in the market and, where appropriate, external advice on policies and practices.

Relationship between remuneration policy and company performance

The emphasis of the company's performance based remuneration strategy is to align the goals of management with those of shareholders whilst taking into account the company's current financial circumstances. It is the view of the Board that the most effective way to align management and shareholder goals is through the provision of share option incentives that correlate contingent remuneration to increases in shareholder value. The extent and conditions regarding these incentives are determined by the board on an annual basis with regard to the company's strategic and financial goals, and market benchmarks.

Senior sales positions have a component of their remuneration package tied to the generation of sales through the existence of commission agreements. In line with the company's strategic and financial goals, this method of performance-based remuneration allows the company to increase its sales and marketing efforts whilst preserving a low fixed cost structure.

In considering the Group's performance and benefits for shareholder wealth, the Board has regard to a number of indices, including the following.

	30 June 2009 $	30 June 2008 $	30 June 2007 $	30 June 2006 $	30 June 2005 $
Revenue	1,291,820	798,322	883,021	641,261	1,657,277
Net loss before tax	(4,131,149)	(5,002,595)	(3,298,683)	(2,203,755)	(1,445,117)
Net loss after tax	(4,023,956)	(4,909,314)	(3,187,686)	(2,006,832)	(1,241,522)

	30 June 2009 $	30 June 2008 $	30 June 2007 $	30 June 2006 $	30 June 2005 $
Share price at start of year	33.5 cents	30.0 cents	9.0 cents	5.4 cents	4.3 cents
Share price at end of year	4.4 cents	33.5 cents	30.0 cents	9.0 cents	5.4 cents
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	(2.06) cents	(2.72) cents	(1.94) cents	(1.48) cents	(1.21) cents
Diluted earnings per share	(2.06) cents	(2.72) cents	(1.94) cents	(1.48) cents	(1.21) cents

Director and executive remuneration

2009	Short-term employee benefits			Post-employment benefits		Other long-term employee benefits	Termination benefits	Share-based payment			Total
								Equity-settled			
	Salary & fees $	Bonus $	Non-monetary $	Superannuation $	Other $	$	$	Shares & units (iv) $	Options & rights $	Cash-settled $	$
Non-executive directors											
P L Tyree	-	-		-	-	-	-	-	-	-	-
D J Halley	38,334	-	-	3,450	-	-	-	-	-	-	41,784
J S Keniry	20,000	-	-	1,800	-	-	-	-	-	-	21,800
R O Holcomb	21,800	-	-	-	-	-	-	-	-	-	21,800
R Tayeh	5,479	-	-	493	-	-	-	-	-	-	5,972
Executive officers											
J M Blomfield	303,508	-	102,313	28,136	-	-	-	-	-	-	433,957
P S Atherton	210,482	-	24,066	-	-	-	-	35,215	-	-	269,763
G M Phipps	122,500	-	-	12,600	-	-	-	17,500	-	-	152,600
H Van Pelt	78,750	-	-	-	-	-	-	26,250	-	-	105,000
S R Van Fleet (ii)	231,868	-	18,376	-	-	-	-	38,793	30,078	-	319,115
A M Strauch (ii)	135,989	-	20,671	-	-	-	68,823	28,247	27,690	-	281,420
	1,168,710	-	165,426	46,479	-	-	68,823	146,005	57,768	-	1,653,211

2008	Short-term employee benefits			Post-employment benefits		Other long-term employee benefits	Termination benefits	Share-based payment			Total
								Equity-settled			
	Salary & fees $	Bonus $	Non-monetary $	Superannuation $	Other $	$	$	Shares & units $	Options & rights $	Cash-settled $	$
Non-executive directors											
D J Halley (ii)	40,000	-	-	3,600	-	-	-	-	157,896	-	201,496
J S Keniry (ii)	20,000	-	-	1,800	-	-	-	-	157,896	-	179,696
R O Holcomb	20,000	-	-	1,800	-	-	-	-	-	-	21,800
Executive officers											
J M Blomfield (ii)	247,325	-	90,956	22,363	-	-	-	-	21,427	-	382,071
P S Atherton	197,412	-	21,485	-	-	-	-	-	-	-	218,897
G M Phipps	132,500	-	-	11,925	-	-	-	-	-	-	144,425
S R Van Fleet (ii)	227,826	-	23,248	-	-	-	-	-	113,618	-	364,692
A M Strauch (ii) (iii)	165,893	72,578	24,433	-	-	-	-	-	113,618	-	376,522
	1,050,956	72,578	160,122	41,488	-	-	-	-	564,455	-	1,889,599

(i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

(ii) J M Blomfield was granted these share options on 31 August 2006. S R Van Fleet and A M Strauch were granted these share options on 28 May 2007. D J Halley and J S Keniry were issued these share options on 22 November 2007. Further details of the options granted are contained in notes 23 to 24 of the financial statements.

(iii) In accordance with his employment contract, A M Strauch was paid quarterly bonuses dependent on the achievement of specified criteria, as dictated by the Managing Director.

(iv) Shares issued in the current year were issued under the Salary Sacrifice Share Plan.

No director or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

There were no grants of share-based payment compensation to directors and senior management during the current financial year, though several employees received shares under the company's Salary Sacrifice Share Plan.

During the year, no directors or senior management exercised options that were granted to them as part of their compensation. Each option converts into one ordinary share of MIKOH Corporation Limited.

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the directors and senior management:

Name	Value of options granted at the grant date (i) $	Value of options exercised at the exercise date $	Value of options lapsed at the lapse date $
D J Halley	-	-	N/A
J S Keniry	-	-	N/A
P S Atherton	-	-	N/A

Key terms of employment contracts

The Chairman and other non-executive directors are paid director's fees and, in the case of those who are Australian based, compulsory superannuation fund contributions are made on their behalf.

The Company has entered into an employment contract with J M Blomfield as Managing Director and Chief Executive Officer. The contract contains the following key terms.

Term:	Fixed term agreement expiring 26 September 2010.
Annual Salary:	USD 225,000 with annual reviews
Performance Bonus:	Variable based on financial performance and a range of other key performance indicators.
Notice Period:	Three months by either party
Redundancy:	In the event of the Managing Director being terminated as a result of the Company being taken over, one year's salary

The Chief Technology Officer ("CTO") is employed under an Executive Service Agreement. Under the agreement he is remunerated on an agreed salary basis, with annual reviews. He is entitled to the use of a company-provided fully maintained motor vehicle. The company also pays the cost of private medical insurance for the CTO and his wife.

The Vice President Sales and Business Development has an employment contract under which he is remunerated on an agreed salary basis, with annual reviews, as well as sales commissions. He is entitled to participate in the company's US employee benefit plan, covering medical, dental, life and long-term disability insurance. There are no specific notice conditions, but he is entitled to 50% of his annual salary if the company terminates his employment without just cause, and to 100% of his annual salary if made redundant in the event of the company being taken over.

The Vice President Product Marketing and Management had an employment contract under which he was remunerated on an agreed salary basis, with annual reviews, as well as an annual bonus of up to US$75,000, assessed quarterly in arrears against the performance of Key Performance Indicators as agreed with the Managing Director. No bonus was paid in the year ended 30 June 2009. He was entitled to participate in the company's US employee benefit plan, covering medical, dental, life and long-term disability insurance. There were no specific notice conditions, but he was entitled to 50% of his annual salary if the company terminated his employment without just cause, and to 100% of his annual salary if made redundant in the event of the company being taken over.

The General Manager Australia is engaged under a Consultancy Agreement until 31 October 2011 for a fixed monthly sum, with annual reviews. The contract may be terminated with three month's notice, or immediately under specified circumstances.

The Company Secretary and Financial Controller is employed on an agreed salary basis under standard employment conditions including annual reviews, and the requirement for one month's notice by either party of termination of employment.

The company has in place an Employee Share Option Plan, under which employees may be granted share options from time to time at the sole discretion of the Board. A Salary Sacrifice Share Plan was also instituted during the year ended 30 June 2009, with many employees participating. Shares were issued for each month of participation based on the average daily closing share prices in the month for which salary was sacrificed.

Proceedings on behalf of the company

No person has applied to Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of the proceedings.
No proceedings have been brought or intervened in on behalf of the company with leave to the Court under section 237 of the Corporations Act 2001.

Non-audit services

There were no non-audit services provided by the auditor during the year.

Auditor's independence declaration

The auditor's independence declaration is included on page 10 of the annual financial report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Peter Tyree
Chairman

Sydney, 29 September 2009

Matt Blomfield
Managing Director

Sydney, 29 September 2009

Deloitte.

Deloitte Touche Tohmatsu
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29 September 2009

The Board of Directors
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Dear Board Members

Mikoh Corporation Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Mikoh Corporation Limited.

As lead audit partner for the audit of the financial statements of Mikoh Corporation Limited for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Kulic

Michael Kulic
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report
to the members of Mikoh Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Mikoh Corporation Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 13 to 44.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

A member firm of
Deloitte Touche Tohmatsu

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion, the financial report of Mikoh Corporation Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*. The financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred a net loss of $4,023,956 (company: $3,849,492) and had net cash outflows of $3,288,367 (company: $926,473) during the financial year ended 30 June 2009. These conditions, along with other matters as set forth in Note 2(a), indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 8 of the director's report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Mikoh Corporation Limited for the year ended 30 June 2009 complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Kulic

Michael Kulic
Partner
Chartered Accountants
Sydney, 29 September 2009

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Peter Tyree
Chairman

Sydney, 29 September 2009

Matt Blomfield
Managing Director

Sydney, 29 September 2009

Income statement
for the financial year ended 30 June 2009

		Consolidated		Company	
		2009	2008	2009	2008
	Note	**$**	**$**	**$**	**$**
Continuing operations					
Revenue	5	1,245,623	674,085	101,500	-
Cost of sales		(809,719)	(283,751)	(45,114)	-
Gross profit		435,904	390,334	56,386	-
Other revenue	5	46,197	124,237	1,480,253	2,213,283
Manufacturing expenses		(264,820)	(309,069)	-	-
Administration expenses		(1,724,087)	(2,288,993)	(5,180,051)	(7,026,180)
Marketing expenses		(1,790,323)	(2,038,810)	(139,501)	(25,074)
Research and development expenses		(834,020)	(880,294)	(66,579)	(131,461)
Loss before tax	6	(4,131,149)	(5,002,595)	(3,849,492)	(4,969,432)
Income tax benefit	7	107,193	93,281	-	-
Loss for the year attributable to members of the parent		(4,023,956)	(4,909,314)	(3,849,492)	(4,969,432)
Earnings per share					
Basic (cents per share)	17	(2.06)	(2.72)		
Diluted (cents per share)	17	(2.06)	(2.72)		

Notes to the financial statements are included on pages 19 to 44.

Balance sheet
as at 30 June 2009

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$	$	$	$
Current assets					
Cash and cash equivalents		1,944,181	2,424,943	1,865,660	2,326,822
Trade and other receivables	8	188,490	168,921	886,025	915,028
Inventories	9	462,910	392,858	-	-
Other	10	360,865	370,189	15,090	8,387
Total current assets		2,956,446	3,356,911	2,766,775	3,250,237
Non-current assets					
Plant and equipment	11	506,706	414,923	18,948	25,219
Total non-current assets		506,706	414,923	18,948	25,219
Total assets		3,463,152	3,771,834	2,785,723	3,275,456
Current liabilities					
Trade and other payables	12	805,829	1,025,478	298,994	822,952
Provisions	13	204,282	146,019	21,237	14,991
Total current liabilities		1,010,111	1,171,497	320,231	837,943
Non-current liabilities					
Provisions	13	92,016	71,421	1,812	847
Total non-current liabilities		92,016	71,421	1,812	847
Total liabilities		1,102,127	1,242,918	322,043	838,790
Net assets		2,361,025	2,528,916	2,463,680	2,436,666
Equity					
Issued capital	14	35,236,603	31,455,913	35,236,603	31,455,913
Reserves	15	1,730,634	1,605,086	1,753,643	1,657,827
Accumulated losses	16	(34,606,212)	(30,532,083)	(34,526,566)	(30,677,074)
Total equity attributable to members of the parent		2,361,025	2,528,916	2,463,680	2,436,666

Notes to the financial statements are included on pages 19 to 44.

Statement of changes in equity
for the financial year ended 30 June 2009

Consolidated

	Fully paid ordinary shares $	Equity-settled employee benefits reserve $	Foreign currency translation reserve $	Accumulated losses $	Total attributable to members of the parent $
Balance at 1 July 2007	28,019,449	1,023,354	(21,426)	(25,622,769)	3,398,608
Exchange differences arising on translation of foreign operations	-	-	(31,315)	-	(31,315)
Net income recognised directly in equity	-	-	(31,315)	-	(31,315)
Loss for the period	-	-	-	(4,909,314)	(4,909,314)
Total recognised income and expense	-	-	(31,315)	(4,909,314)	(4,940,629)
Issue of shares	3,547,254	-	-	-	3,547,254
Share issue costs	(124,563)	-	-	-	(124,563)
Share options exercised	13,773	(13,773)	-	-	-
Recognition of share-based payments	-	648,246	-	-	648,246
Balance at 30 June 2008	31,455,913	1,657,827	(52,741)	(30,532,083)	2,528,916
Balance at 1 July 2008	31,455,913	1,657,827	(52,741)	(30,532,083)	2,528,916
Exchange differences arising on translation of foreign operations	-	-	(20,441)	-	(20,441)
Net income recognised directly in equity	-	-	(20,441)	-	(20,441)
Loss for the period	-	-	-	(4,023,956)	(4,023,956)
Total recognised income and expense	-	-	(20,441)	(4,023,956)	(4,044,397)
Transfer from foreign currency translation reserve to accumulated losses			50,173	(50,173)	-
Issue of shares	3,878,422	-	-	-	3,878,422
Share issue costs	(97,732)	-	-	-	(97,732)
Share options exercised	-	-	-	-	-
Recognition of share-based payments	-	95,816	-	-	95,816
Balance at 30 June 2009	35,236,603	1,753,643	(23,009)	(34,606,212)	2,361,025

Notes to the financial statements are included on pages 19 to 44.

Statement of changes in equity
for the financial year ended 30 June 2009

Company

	Fully paid ordinary shares $	Equity-settled employee benefits reserve $	Foreign currency translation reserve $	Accumulated losses $	Total $
Balance at 1 July 2007	28,019,449	1,023,354	-	(25,707,642)	3,335,161
Exchange differences arising on translation of foreign operations	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-
Loss for the period	-	-	-	(4,969,432)	(4,969,432)
Total recognised income and expense	-	-	-	(4,969,432)	(4,969,432)
Issue of shares	3,547,254	-	-	-	3,547,254
Share issue costs	(124,563)	-	-	-	(124,563)
Share options lapsed	13,773	(13,773)	-	-	-
Recognition of share-based payments	-	648,246	-	-	648,246
Balance at 30 June 2008	31,455,913	1,657,827	-	(30,677,074)	2,436,666
Balance at 1 July 2008	31,455,913	1,657,827	-	(30,677,074)	2,436,666
Exchange differences arising on translation of foreign operations	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-
Loss for the period	-	-	-	(3,849,492)	(3,849,492)
Total recognised income and expense	-	-	-	(3,849,492)	(3,849,492)
Issue of shares	3,878,422	-	-	-	3,878,422
Share issue costs	(97,732)	-	-	-	(97,732)
Share options exercised	-	-	-	-	-
Recognition of share-based payments	-	95,816	-	-	95,816
Balance at 30 June 2009	35,236,603	1,753,643	-	(34,526,566)	2,463,680

Notes to the financial statements are included on pages 19 to 44.

Cash flow statement
for the financial year ended 30 June 2009

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$	$	$	$
Cash flows from operating activities					
Receipts from customers		1,278,708	663,776	73,150	-
Payments to suppliers and employees		(4,567,075)	(5,138,706)	(999,623)	(1,089,727)
Net cash provided by/(used in) operating activities	21	(3,288,367)	(4,474,930)	(926,473)	(1,089,727)
Cash flows from investing activities					
Interest received		41,600	119,105	41,245	118,559
Amounts advanced to related parties		-	-	(2,834,173)	(3,532,837)
Proceeds from repayment of related party loans		-	-	375,000	-
Payments for property, plant and equipment		(187,774)	(211,193)	(50,654)	(3,059)
Net cash (used in)/provided by investing activities		(146,174)	(92,888)	(2,468,582)	(3,417,337)
Cash flows from financing activities					
Proceeds from issues of equity securities		3,029,016	4,111,027	3,029,016	4,111,027
Payment for share issue costs		(95,123)	(124,563)	(95,123)	(124,563)
Proceeds from borrowings		100,000	-	100,000	-
Repayment of borrowings		(100,000)	-	(100,000)	-
Net cash provided by financing activities		2,933,893	3,986,464	2,933,893	3,986,464
Net increase in cash and cash equivalents		(500,648)	(581,354)	(461,162)	(520,600)
Cash and cash equivalents at the beginning of the financial year		2,424,943	3,027,258	2,326,822	2,847,422
Effects of exchange rate changes on the balance of cash held in foreign currencies		19,886	(20,961)	-	-
Cash and cash equivalents at the end of the financial year		1,944,181	2,424,943	1,865,660	2,326,822

Notes to the financial statements are included on pages 19 to 44.

1. General information

MIKOH Corporation Limited (the company) is a public company listed on the Australia Securities Exchange (trading under the symbol 'MIK'), incorporated in Australia, and operating in Australia and North America.

MIKOH Corporation Limited's registered office and its principal place of business are as follows:

Registered office	**Principal place of business**
1/1 Culverlands Street Heidelberg West VIC 3081 Tel: (03) 9458 2075	1/1 Culverlands Street Heidelberg West VIC 3081 Tel: (03) 9458 2075

2. Significant accounting policies

Statement of compliance
The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').
The financial statements were authorised for issue by the directors on XX September 2009.

Basis of preparation
The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 3 for a discussion of critical judgments in applying the Group's accounting policies, and key sources of estimation uncertainty.

Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective. Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated entity's and the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
• AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010
• AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 January 2009 (and that ends on or after 30 April 2009)	30 June 2010

2. Significant accounting policies (continued)

Initial application of the following Standards and Interpretations that apply to the Group is not expected to have material impacts to the financial report, nor significantly affect the disclosures presently made in relation to the Groups financial report:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
• AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	Business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
• AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2009	30 June 2010
• AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
• AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items'	1 July 2009	30 June 2010
• AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
• AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010[1]	30 June 2011
• AASB 2009-6 'Amendments to Australian Accounting Standards'	1 January 2009[2]	30 June 2010
• AASB 2009-7 'Amendments to Australian Accounting Standards'	1 July 2009	30 June 2010
• AASB 1 'First-time Adoption of Australian Accounting Standards'	1 July 2009	30 June 2010
• AASB Interpretation 15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
• AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
• AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners'	1 July 2009	30 June 2010
• AASB Interpretation 18 'Transfers of Assets from Customers'	1 July 2009[3]	30 June 2010

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[1] Applicable to financial years beginning on or after 1 January 2010, except for the amendments made to the guidance to AASB 118 'Revenue' that have no explicit application date and are taken to be immediately effective.

[2] Applicable to financial years beginning on or after 1 January 2009 that end on or after 30 June 2009.

[3] AASB Interpretation 18 applies to transfers of assets from customers received on or after 1 July 2009.

2. Significant accounting policies (continued)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the reasons described below, there is significant uncertainty whether the company and consolidated entity will continue as going concerns:

- The consolidated entity has incurred a loss of $4,023,956 (2008: $4,909,314) and net cash outflows from operating activities of $3,288,367 (2008: $4,474,930) for the year. The company incurred a loss of $3,849,492 (2008: $4,969,432) and had net cash outflows from operating activities of $926,473 (2008: $1,089,727) for the year.
- The company has sufficient working capital to meet its requirements until at least 1 February 2010. In the event that the expected contracts underpinning the cash flow forecast do not eventuate by this stage, the directors believe that the company will be able to raise additional equity finance to satisfy its working capital requirements.

The ability of the company and the consolidated entity to continue as going concerns is dependent on their ability to:

- Secure profitable sales contracts;
- Achieve future profitable trading operations;
- Generate sufficient cash flows from operations to meet their working capital obligations; and/or
- Obtain additional equity finance.

The company has traditionally been able to raise equity funding by way of private placements to meet its ongoing working capital requirements. During the year ended 30 June 2009 the company raised $1,509,906 by way of private placements and $2,368,516 from a rights issue to shareholders. Since balance date, the company has raised $1,800,000 by way of private placement. In the prior year ended 30 June 2008 the company raised $2,330,254 by way of private placements and $959,500 from existing shareholders via a share purchase plan. The directors have no reason to believe that the consolidated entity will be unable to raise the necessary amounts during the year ending 30 June 2010 to fund its working capital requirements.

At the date of this report and having considered the above factors, the directors are confident that the company and consolidated entity will be able to continue as going concerns. Notwithstanding this and given the factors above there is significant uncertainty whether the company and the consolidated entity will continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the ordinary course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

(c) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. Significant accounting policies (continued)

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.
Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.
Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.
Defined contribution plans
Contributions to defined contribution superannuation plans are expensed when incurred.

(e) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.
Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.
Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.
Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.
In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

2. Significant accounting policies (continued)

(f) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.
Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(g) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of MIKOH Corporation Limited, and the presentation currency for the consolidated financial statements.
In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:
exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve in the consolidated financial statements and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

(h) Impairment of other tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. Significant accounting policies (continued)

(h) Impairment of other tangible and intangible assets (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Income tax

<u>Current tax</u>

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

<u>Deferred tax</u>

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arose from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

2. Significant accounting policies (continued)

(i) Income tax (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. MIKOH Corporation Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

(j) Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(l) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2. Significany accounting policies (continued)

(m) Plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimate useful lives are used in the calculation of depreciation:

- Leasehold improvements 3 years
- Plant and equipment 2.5 – 10 years

(n) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold

revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

2. Significant accounting policies (continued)

(o) Revenue (continued)

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(p) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 23.
The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables, which are recognised inclusive of GST.

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

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern
The financial statements have been prepared on the assumption that the entity is a going concern. This judgement by the directors has been further explained in note 2a. If this assumption is not correct there may be material adjustments required to the carrying amounts of assets and liabilities.

Share based payments
The entity operates an employee share scheme, which issues options to employees to acquire shares. Details of the share scheme can be found in note 23. The fair value of the options is recognized over the vesting period of the options. The fair value has been calculated using the binomial model, which incorporates many assumptions and estimates, all of which have been detailed in note 23. If any of these assumptions or estimates were to change, this could have an impact on the amounts recognised.

4. Business and geographical segments

Information on business segments

Products and services within each business segment

For management purposes, the Group is organised into two major operating divisions – Security Technologies and Digital Marketing Technologies. These divisions are the basis on which the Group reports its primary segment information. The principal products and services of each of these divisions are as follows:

Security Technologies	The production and sale of tamper evident RFID (radio-frequency identification) products, and other tamper evident technologies, within Australia and overseas.
Digital Marketing Technologies	The manufacture, sale and servicing of variable data inkjet printers.

Segment revenues

	External sales		Inter-segment (i)		Other		Total	
	2009 $	**2008 $**	**2009 $**	**2008 $**	**2009 $**	**2008 $**	**2009 $**	**2008 $**
Security Technologies	462,299	373,868	-	-	-	-	462,299	373,868
Digital Marketing Technologies	783,324	300,217	-	-	-	-	783,324	300,217
Total of all segments							1,245,623	674,085

(i) Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Segment result

	2009 $	**2008 $**
Continuing operations		
Security Technologies	(1,556,793)	(812,234)
Digital Marketing Technologies	(352,762)	(534,959)
	(1,909,555)	(1,347,193)
Unallocated	(2,221,594)	(3,655,402)
Loss before tax	(4,131,149)	(5,002,595)
Income tax benefit	107,193	93,281
Loss for the year from continuing operations	(4,023,956)	(4,909,314)
Loss for the year	(4,023,956)	(4,909,314)

Segment assets and liabilities

	Assets		Liabilities	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Security Technologies	308,599	321,616	81,515	69,300
Digital Marketing Technologies	850,572	859,316	168,850	61,375
Total of all segments	1,159,171	1,180,932	250,365	130,675
Unallocated	2,303,981	2,590,902	851,762	1,112,243
Consolidated	3,463,152	3,771,834	1,102,127	1,242,918

The unallocated portion of the segment losses relates to administration expenses. Unallocated assets mainly comprise cash on hand and unallocated liabilities comprise payroll accruals and employee benefit provisions. There is no practicable means of allocation and hence they have been included under unallocated.

Other segment information

	Security Technologies		Digital Marketing Technologies	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Depreciation and amortisation of segment assets	51,027	3,050	59,992	49,049
Acquisition of segment assets	43,850	908	65,984	42,119

Information on geographical segments

The Group's two divisions operate in two principal geographical areas – Australia and North America. The composition of each geographical segment is as follows:

Australia	The Group manufactures and sells its RFID and non-RFID tamper evident technology as well as its variable data digital inkjet printers.
North America	The Group produces and sells its tamper evident RFID technology, and sells its non-RFID tamper evident technology.

The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2009	2008	2009	2008	2009	2008
	$	$	$	$	$	$
Australia	1,143,120	605,365	3,150,914	3,473,201	207,526	105,610
North America	102,503	68,720	312,238	298,633	40,781	106,382
Total of geographies	1,245,623	674,085	3,463,152	3,771,834	248,307	211,992

5. Revenue and other revenue

An analysis of the Group's revenue for the year from continuing operations is as follows

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Continuing operations				
Revenue from the sale of goods	1,117,760	674,085	51,500	-
Revenue from the rendering of services	70,365	-	50,000	-
Royalty and licence revenue	57,498	-	-	-
	1,245,623	674,085	101,500	-
Other revenue				
Interest from third parties	46,097	119,105	45,742	118,559
Interest from controlled entities	-	-	996,841	1,099,102
Export market development grant	-	5,132	-	-
Sundry revenue	100	-	-	-
Management fees on services provided to controlled entities	-	-	437,670	995,622
	46,197	124,237	1,480,253	2,213,283

6. Loss for the year

(a) Gains and losses

Loss for the year has been arrived at after crediting/(charging) the following gains and losses:

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Net foreign exchange gains/(losses)	5,006	(51)	1,161,298	(831.978)

(b) Other expenses

Profit for the year includes the following expenses:

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Impairment of trade receivables	-	-	-	-
Impairment of intercompany receivables	-	-	5,347,396	4,606,259
Depreciation of non-current assets	175,141	95,998	10,337	9,963
Operating lease rental expenses – minimum lease payments	184,444	159,725	48,030	38,229

6. Loss for the year (continued)

(b) Other expenses (continued)

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Employee benefit expense				
Post employment benefits:				
Defined contribution plans	75,211	64,687	49,615	40,438
Share-based payments:				
Equity-settled share-based payments	95,816	648,246	95,816	648,246
Other employee benefits	2,488,182	2,451,752	331,505	229,012
	2,659,209	3,164,685	476,936	917,696

7. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Tax income comprises:				
Current tax income	(968,523)	(893,542)	173,985	303,773
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(37,678)	42,164	(1,288,681)	(1,334,869)
R & D Tax Offset	(107,193)	(93,281)	-	-
Deferred tax not recognised in the financial statements	1,006,201	851,378	1,114,696	1,031,096
Total tax expense/(income)	(107,193)	(93,281)	-	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Loss from operations	(4,131,149)	(5,002,595)	(3,849,492)	(4,969,432)
Income tax expense calculated at 30%	(1,239,345)	(1,500,779)	(1,154,848)	(1,490,830)
Effect of expenses that are not deductible in determining taxable profit	40,197	450,339	40,152	459,734
Effect of tax concessions (research and development and other allowances)	85,754	105,781	-	-
Deferred tax asset not recognized	1,006,201	851,378	1,114,696	1,031,096
	(107,193)	(93,281)	-	-

Unrecognised deferred tax assets

	Consolidated	
	2009	**2008**
	$	**$**
The following deferred tax assets have not been brought to account as assets:		
Tax losses – revenue	4,051,438	3,644,185
Potential tax benefit at 30%	1,215,432	1,093,256

All unused tax losses were incurred by Australian entities. No deferred tax assets have been recognised for these losses due to the uncertainty of future profits against which these losses would be able to be used.

8. Trade and other receivables

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Trade receivables (i)	106,041	93,152	38,500	-
Allowance for doubtful debts	-	-	-	-
	106,041	93,152	38,500	-
Amounts due from wholly controlled entities	-	-	29,255,210	23,990,496
Allowance for doubtful debts	-	-	(28,433,911)	(23,086,515)
	-	-	821,299	903,981
Goods and services tax recoverable	53,188	34,877	26,226	8,849
Other	29,261	40,892	-	2,198
	188,490	168,921	886,025	915,028

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables past due. An allowance is made, if necessary, for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Ageing of past due but not impaired

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
30-60 days	24,028	15,179	-	-
60-90 days	38,500	11,021	38,500	-
90-120 days	-	14,549		-
120+ days	14,896	17,629	-	-
	77,424	58,378	38,500	-

The movement in the allowance for doubtful debts in respect of trade and intercompany receivables is detailed below:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Balance at the beginning of the year	-	-	(23,086,515)	(18,480,256)
Impairment losses recognised on receivables	-	-	(5,347,396)	(4,606,259)
Balance at the end of the year	-	-	(28,433,911)	(23,086,515)

9. Inventories

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Raw materials	145,599	98,719	-	-
Work in progress	317,311	237,068	-	-
Finished goods	-	57,071	-	-
	462,910	392,858	-	-

10. Other assets

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Prepayments	128,877	101,320	15,090	8,387
Research and development tax rebate	200,474	227,705	-	-
Accrued income	31,514	41,164	-	-
	360,865	370,189	15,090	8,387

11. Property, Plant and equipment

	Leasehold improvements at cost $	Consolidated Plant and equipment at cost $	Total $
Gross carrying amount			
Balance at 30 June 2007	40,312	1,149,894	1,190,206
Additions	59,525	152,468	211,993
Disposals	-	-	-
Net foreign currency exchange differences	-	(74)	(74)
Balance at 30 June 2008	99,837	1,302,288	1,402,125
Additions	134,407	113,900	248,307
Disposals	-	-	-
Net foreign currency exchange differences	-	(40,820)	(40,820)
Balance at 30 June 2009	234,244	1,375,368	1,609,612
Accumulated depreciation			
Balance at 30 June 2007	35,715	854,970	890,685
Disposals	-	-	-
Depreciation expense	4,207	91,791	95,998
Net foreign currency exchange differences	-	519	519
Balance at 30 June 2008	39,922	947,280	987,202
Disposals	-	-	-
Depreciation expense	53,598	121,543	175,141
Net foreign currency exchange differences	-	(59,437)	(59,437)
Balance at 30 June 2009	93,520	1,009,386	1,102,906
Net book value			
As at 30 June 2008	59,915	355,008	414,923
As at 30 June 2009	140,724	365,982	506,706

	Leasehold improvements at cost $	Company Plant and equipment at cost $	Total $
Gross carrying amount			
Balance at 30 June 2007	-	237,729	237,729
Additions	-	3,059	3,059
Disposals	-	-	-
Balance at 30 June 2008	-	240,788	240,788
Additions	-	4,066	4,066
Disposals	-	-	-
Balance at 30 June 2009	-	244,854	244,854
Accumulated depreciation			
Balance at 30 June 2007	-	205,606	205,606
Disposals		-	-
Depreciation expense	-	9,963	9,963
Balance at 30 June 2008	-	215,569	215,569
Disposals	-	-	-
Depreciation expense	-	10,337	10,337
Balance at 30 June 2009	-	225,906	225,906
Net book value			
As at 30 June 2008	-	25,219	25,219
As at 30 June 2009	-	18,948	18,948

12. Trade and other payables

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Trade payables (i)	415.036	243,326	123,953	126,494
Sundry creditors and accruals	390,793	232,152	175,041	146,458
Application monies received for shares prior to year end issued subsequent to balance date	-	550,000	-	550,000
	805,829	1,025,478	298,994	822,952

(i) The average credit period on purchases of goods is 30 days. No interest is charged on the trade payables for the first 60 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. Provisions

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
<u>Current</u>				
Employee benefits	204,282	146,019	21,237	14,991
<u>Non-current</u>				
Employee benefits	92,016	71,421	1,812	847
	296,298	217,440	25,049	15,838

14. Issued Capital

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
268,884,351 fully paid ordinary shares (2008: 187,168,219)	35,236,603	31,455,913	35,236,603	31,455,913

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2009		2008	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	187,168,219	31,455,913	177,648,377	28,019,449
Issue of shares as consideration for business combination	1,218,287	90,207	-	-
Exercise of options	-	-	1,600,000	271,273
Share Purchase Plan	-	-	2,741,500	959,500
Rights Issue	59,212,891	2,368,516	-	-
Salary Sacrifice Share Plan	2,832,726	184,449	-	-
Other issues of shares	18,452,228	1,235,250	5,178,342	2,330,254
Share issue costs	-	(97,732)	-	(124,563)
Balance at end of financial year	268,884,351	35,236,603	187,168,219	31,455,913

Fully paid ordinary shares carry one vote per share and carry the right to dividends.
No shares carry preferential rights on winding up.

14. Issued Capital (continued)

Share options granted under the employee share option plan

In accordance with the provisions of the employee share option plan, as at 30 June 2009, executives and directors have options over 17,500,000 ordinary shares, all of which have vested, expiring on various dates between 31 March 2010 and 31 March 2013. Other employees have options over 1,000,000 ordinary shares, all of which have vested, which expire on either 28 May 2012 or 31 March 2013. As at 30 June 2008, executives and directors had options over 24,400,000 ordinary shares (of which 1,500,000 were unvested), expiring on various dates between 25 September 2008 and 28 May 2012. Other employees also have options over 1,500,000 ordinary shares (875,000 of which are unvested) which expire on either 28 May 2012 or 31 March 2013.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 23 to the financial statements.

15. Reserves

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Equity-settled employee benefits	1,753,643	1,657,827	1,753,643	1,657,827
Foreign currency translation	(23,009)	(52,741)	-	-
	1,730,634	1,605,086	1,753,643	1,657,827

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Equity-settled employee benefits reserve				
Balance at beginning of financial year	1,657,827	1,023,354	1,657,827	1,023,354
Share-based payment	95,816	648,246	95,816	648,246
Options exercised during the financial year	-	(13,773)	-	(13,773)
Balance at end of financial year	1,753,643	1,657,827	1,753,643	1,657,827

The equity-settled employee benefits reserve arises on the grant of share options to directors, executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. The options which expired during the 2009 financial year were granted prior to the introduction of Australian Equivalent to Internaitonal Financial Reporting Standards ("AIFRS"), hence had no value ascribed to them. Further information about share-based payments to directors and employees is made in note 23 to the financial statements.

Foreign currency translation reserve				
Balance at beginning of financial year	(52,741)	(21,426)	-	-
Transfer to Accumulated Losses	50,173	-	-	-
Translation of foreign operations	(20,441)	(31,315)	-	-
Balance at end of financial year	(23,009)	(52,741)	-	-

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

16. Accumulated Losses

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Balance at beginning of financial year	(30,532,083)	(25,622,769)	(30,677,074)	(25,707,642)
Net Loss attributable to members of the parent entity	(4,023,956)	(4,909,314)	(3,849,492)	(4,969,432)
Transfer from foreign currency translation reserve	(50,173)	-	-	-
Balance at end of financial year	(34,606,212)	(30,532,083)	(34,526,566)	(30,677,074)

17. Earnings per share

	Consolidated	
	2009 Cents per share	2008 Cents per share
Basic earnings per share		
From continuing operations	(2.06)	(2.72)
Diluted earnings per share		
From continuing operations	(2.06)	(2.72)

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2009 $	2008 $
Net loss	(4,023,956)	(4,909,314)
Earnings used in the calculation of basic EPS from continuing operations	(4,023,956)	(4,909,314)

	2009 No.	2008 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	194,978,884	180,763,616

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	2009 $	2008 $
Net loss	(4,023,956)	(4,909,314)
Earnings used in the calculation of diluted EPS from continuing operations	(4,023,956)	(4,909,314)

	2009 No.	2008 No.
Weighted average number of ordinary shares used in the calculation of diluted EPS	194,978,884	180,763,616

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2009 No.'000	2008 No.'000
Ordinary share options	18,500,000	25,900,000

18. Contingent liabilities and contingent assets

The company has no contingent liabilities or assets.

19. Leases

Operating leases

Leasing arrangements

Operating leases relate to premises and some office equipment. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

Non-cancellable operating lease commitments

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Not longer than 1 year	47,690	47,775	41.040	39,600
Longer than 1 year and not longer than 5 years	27,360	72,650	27,360	66,000
	75,050	120,425	68,400	105,600

20. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2009 %	Ownership interest 2008 %
Parent entity			
MIKOH Corporation Limited (i)	Australia	-	-
Subsidiaries			
MIKOH Imaging Systems Pty Limited (ii) (iii)	Australia	100	100
MIKOH Corporation	USA	100	100
MIKOH Pty Limited (ii) (iii)	Australia	100	100
MIKOH Technology Pty Limited (ii) (iii)	Australia	100	100

(i) MIKOH Corporation Limited is the head entity within the tax-consolidated group.
(ii) These companies are members of the tax-consolidated group.
(iii) These wholly owned entities are classified as small proprietary entities and, in accordance with the Corporations Act 2001 are relieved from the requirement to prepare and lodge audited financial statements.

21. Notes to the cash flow statement

Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Loss for the year	(4,023,956)	(4,909,314)	(3,849,492)	(4,969,432)
Depreciation	175,141	95,998	10,337	9,963
Foreign exchange loss/(gain)	(5,006)	51	(1,161,298)	831,621
Impairment of intercompany balances	-	-	5,347,396	4,606,259
Impairment of IP purchased	86,141	-	86,141	-
Intercompany management charges and interest	-	-	(1,434,511)	(2,094,724)
Other non-cash intercompany loan movements	-	-	7,871	-
Equity-settled share-based payment	95,816	648,246	95,816	648,246
Equity-settled creditor invoices	26,250	-	26,250	
Equity-settled salary payments	184,449	-	17,500	
Interest income received and receivable	(41,600)	(119,105)	(41,245)	(118,559)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Trade and other receivables	(19,569)	(94,228)	(53,679)	3,776
Prepayments	(27,557)	73,371	(6,703)	54,504
Inventories	(70,052)	(156,934)	-	-
Other assets	36,881	86,402	-	-
Increase/(decrease) in liabilities:				
Trade and other payables	215,837	(77,150)	21,933	121,979
Provisions	78,858	(22,267)	7,211	(183,360)
Net cash used in operating activities	(3,288,367)	(4,474,930)	(926,473)	(1,089,727)

22. Financial Instruments

(a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

(b) Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern.

The capital structure of the Group includes cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses. The Group has no borrowings.

(c) Categories of Financial Instruments

Group	**2009** $	**2008** **$**
<u>Financial Assets</u>		
Cash and cash equivalents	1,944,181	2,424,943
Loans and receivables	188,490	168,921
<u>Financial Liabilities</u>		
Trade and other payables	805,829	1,025,478

T
The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Company	**2009** $	**2008** **$**
<u>Financial Assets</u>		
Cash and cash equivalents	1,865,660	2,326,822
Loans and receivables	886,025	915,028
<u>Financial Liabilities</u>		
Trade and other payables	298,994	822,952

The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

(d) Financial Risk Management Objectives

The Group's activities expose it to a variety of risks. These risks include market risk, foreign currency risk, credit risk and liquidity risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments. The Group's risk management policies are reviewed by the board of directors at least annually.

(e) Market Risk

The Group's only exposure to market risk is the effect of changes in interest rates which would affect interest received. There has been no change to the company's exposure to market risks.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net loss before taxation would decrease by $9,720 or increase by $9,720 (2008: decrease by $12,124 or increase by $12,124). This is attributable to the Group's exposure to interest rates on its bank deposits. The group's sensitivity to interest rates has decreased during the current period due to the reduction in cash at bank.

22. Financial Instruments (continued)

(f) Foreign Currency Risk

The Group undertakes certain transactions denominated in foreign currencies that are different to the functional currency of the respective entities undertaking the transactions, hence exposure to exchange rate fluctuations arise.

The carrying amount of the Parent and Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date that are denominated in a currency that is different to the functional currency of the respective entity holding the monetary assets and liabilities are as follows:

Consolidated

	Assets		Liabilities	
	2009 $	2008 $	2009 $	2008 $
US Dollars	56,522	84,946	55,587	48,360

Company

	Assets		Liabilities	
	2009 $	2008 $	2009 $	2008 $
US Dollars	9,998,437	7,731,319	-	-

At 30 June 2009, if the Australian dollar moved against the US dollar by 5% or 10%, with all other variables held constant, the Group's net loss would not have been affected, as all entries relating to the USD loan from the parent to the US entity are eliminated on consolidation. If the Australian dollar moved against the US dollar by 5% or 10%, with all other variables held constant, the Company's net loss would also not have been affected. As the US entity has negative Net Assets, the FX Translation Reserve movement (to reflect the revaluation of the loan in the parent entity) is exactly offset by the adjustment to the provision against the loan.

(g) Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of the financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Consolidated

Financial Liabilities	Weighted Average Effective Interest Rate %	Less than 1 month $	1-3 Months $	3 months to 1 year $	1-5 years $	5+ years $	TOTAL $
2009							
Interest bearing		-	-	-	-	-	-
Non interest bearing							
Trade and other payables	N/A	805,829	-	-	-	-	805,829
		805,829	**-**	**-**	**-**	**-**	**805,829**
2008							
Interest bearing		-	-	-	-	-	-
Non interest bearing							
Trade and other payables	N/A	475,478	-	-	-	-	475,478
Other financial liabilities (i)		550,000	-	-	-	-	550,000
		1,025,478	**-**	**-**	**-**	**-**	**1,025,478**

22. Financial Instruments (continued)

(g) Liquidity Risk (continued)

Company

Financial Liabilities	**Weighted Average Effective Interest Rate %**	**Less than 1 month $**	**1-3 months $**	**3 months to 1 year $**	**1-5 years $**	**5+ years $**	**TOTAL $**
2009							
Interest bearing		-	-	-	-	-	-
Non interest bearing							
Trade and other payables	N/A	298,994	-	-	-	-	298,994
		298,994	**-**	**-**	**-**	**-**	**298,994**
2008							
Interest bearing		-	-	-	-	-	-
Non interest bearing							
Trade and other payables	N/A	272,952	-	-	-	-	272,952
Other financial liabilities (i)		550,000	-	-	-	-	550,000
		822,952	**-**	**-**	**-**	**-**	**822,952**

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the company anticipates that the cash flow will occur in a different period.

Consolidated

Financial Assets	**Weighted Average Effective Interest Rate %**	**Less than 1 month $**	**1-3 months $**	**3 months to 1 year $**	**1-5 years $**	**5+ years $**	**TOTAL $**
2009							
Variable interest rate instruments							
Cash and cash equivalents	2.52%	1,044,181	900,000	-	-	-	1,944,181
Non interest bearing instruments							
Trade and other debtors	Nil	188,490	-	-	-	-	188,490
	2.30%	**1,232,671**	**900,000**	**-**	**-**	**-**	**2,132,671**
2008							
Variable interest rate instruments							
Cash and cash equivalents	5.24%	2,424,943	-	-	-	-	2,424,943
Non interest bearing instruments							
Trade and other debtors	Nil	168,921	-	-	-	-	168,921
	4.90%	**2,593,864**	**-**	**-**	**-**	**-**	**2,593,864**

22. Financial Instruments (continued)

(g) Liquidity Risk (continued)

Company

Financial Assets	Weighted Average Effective Interest Rate %	Less than 1 month $	1-3 months $	3 months to 1 year $	1-5 years $	5+ years $	TOTAL $
2009							
Variable interest rate instruments							
Cash and cash equivalents	2.62%	965,660	900,000	-	-	-	1,865,660
Non interest bearing instruments							
Other debtors	Nil	64,726	-	-	-	-	64,726
	2.54%	**1,030,386**	**900,000**	**-**	**-**	**-**	**1,930,386**
2008							
Variable interest rate instruments							
Cash and cash equivalents	5.42%	2,326,822	-	-	-	-	2,326,822
Non interest bearing instruments							
Other debtors	Nil	11,047	-	-	-	-	11,047
	5.39%	**2,337,869**	**-**	**-**	**-**	**-**	**2,337,869**

(g) Fair Value

The carrying amount of the financial assets and financial liabilities represents a reasonable approximation of fair value.

(h) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Financial instruments which potentially subject the company to credit risk solely consist of trade and other receivables. The carrying amount of the financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk, without taking account of the value of any collateral obtained. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

23. Share based payments

Employee share option plan

The Group has an ownership-based compensation scheme for directors and executives of the Group. All options granted are subject to approval by the Board.

Each employee share option converts into one ordinary share of MIKOH Corporation Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the current and comparative periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Issued 25 September 2003	5,000,000	25/09/2003	25/09/2008	0.20	-
Issued 31 December 2003	1,000,000	31/12/2003	31/12/2008	0.10	-
Issued 31 March 2005	2,500,000	31/03/2005	31/03/2010	0.10	0.0182
Issued 31 March 2005	1,000,000	31/03/2005	31/03/2010	0.15	0.0129
Issued 31 March 2005	1,000,000	31/03/2005	31/03/2010	0.20	0.0090
Issued 31 March 2006	500,000	31/03/2006	31/03/2011	0.10	0.0178
Issued 31 March 2006	250,000	31/03/2006	31/03/2011	0.15	0.0117
Issued 31 March 2006	250,000	31/03/2006	31/03/2011	0.20	0.0078
Issued 31 August 2006	500,000	31/08/2006	31/08/2011	0.15	0.0135
Issued 31 August 2006	500,000	31/08/2006	31/08/2011	0.25	0.0079

23. Share based payments (continued)

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Issued 31 August 2006	3,000,000	31/08/2006	31/08/2011	0.15	0.0270
Issued 31 August 2006	3,000,000	31/08/2006	31/08/2011	0.25	0.0159
Issued 10 January 2007	3,000,000	10/01/2007	10/01/2012	0.30	0.1238
Issued 11 May 2007	1,000,000	22/11/2007	11/05/2012	0.50	0.4179
Issued 11 May 2007	1,000,000	22/11/2007	11/05/2012	0.80	0.3036
Issued 28 May 2007*	3,125,000	28/05/2007	28/05/2012	0.50	0.1179
Issued 28 May 2007**	3,125,000	28/05/2007	28/05/2012	0.80	0.0883
Issued 31 March 2008	125,000	31/03/2008	31/03/2013	0.80	0.0717
Issued 31 March 2008	125,000	31/03/2008	31/03/2013	1.20	0.0429

* 1,000,000 of these options lapsed prior to vesting as the relevant employees left MIKOH's employ before the vesting date of 28 May 2008.
** 2,000,000 of these options lapsed prior to vesting as the relevant employees left MIKOH's employ before the vesting date of 28 May 2009.
All options have fully vested.
The weighted average fair value of the share options granted during the 2007/08 financial year was $0.0573.
Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that executives and directors would exercise the options at the mid-point between vesting and expiry.
There are no specific performance criteria attached to the vesting of the options. The options expire one month from the date of termination if the executive or director leaves the employ of MIKOH.

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2009		2008	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	25,900,000	0.3144	29,250,000	0.3231
Granted during the financial year	-	-	250,000	1.0000
Lapsed during the financial year	(2,000,000)	0.6500	(2,000,000)	0.6500
Exercised during the financial year	-	-	(1,600,000)	0.1609
Expired during the financial year	(5,400,000)	0.1815	-	-
Balance at end of the financial year	18,500,000	0.3169	25,900,000	0.3144
Exercisable at end of the financial year	18,500,000	0.3169	23,525,000	0.2632

(i) Exercised during the financial year

No share options were exercised during the financial year.

(ii) Balance at the end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of $0.3169 (2008: $0.3144), and a weighted average remaining contractual life of 770 days (2008: 943 days).

24. Key management personnel compensation

Details of key management personnel

The directors and other members of the key management personnel of the Group during the year were:

- P L Tyree (Chairman from 2 June 2009)
- D J Halley (Chairman until 2 June 2009, then Non-Executive Director)
- J M Blomfield (Managing Director and Chief Executive Officer)
- J S Keniry (Non-Executive Director)
- R O Holcomb (Non-Executive Director)
- R Tayeh (Non-Executive Director from 23 March 2009)
- P S Atherton (Chief Technology Officer – MIKOH Corporation)
- G M Phipps (Company Secretary and Financial Controller)
- H Van Pelt (General Manager – Australia from 8 December 2008)
- S R Van Fleet (Vice President Sales - MIKOH Corporation)
- A M Strauch (Vice President Product Management and Marketing - MIKOH Corporation)

Key management personnel compensation

The aggregate compensation made to directors and other key management personnel of the company and the Group is set out below:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Short-term employee benefits	1,334,136	1,283,656	290,041	212,500
Post-employment benefits	115,302	41,488	18,629	19,125
Share-based payment	203,773	564,455	43,750	315,792
	1,653,211	1,889,599	352,420	547,417

25. Related Party Transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 20 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in note 24 to the financial statements.

ii. Loans from key management personnel

Loans from key management personnel	Balance at beginning $	Loans advanced $	Interest paid $	Loans repaid $	Balance at end $	Number in group
2009	-	100,000	484	100,000	-	2
2008	-	-	-	-	-	-

iii. Key management personnel equity holdings

Fully paid ordinary shares of MIKOH Corporation Limited

	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
2009						
P L Tyree	-			2,125,000	2,125,000	
J M Blomfield	1,193,132	-	-	-	1,193,132	-
D J Halley	11,568,195	-	-	4,767,278	16,335,473	-
J S Keniry	1,862,859	-	-	3,273,412	5,136,271	-
R O Holcomb	-	-	-	-	-	-
R Tayeh	1,000,000	-	-	400,000	1,400,000	
P S Atherton	8,434,286	-	-	3,896,662	12,330,948	-
G M Phipps	1,640,000	-	-	1,033,313	2,673,313	-
H Van Pelt	20,000	-	-	631,278	651,278	-
S R Van Fleet	-	-	-	598,114	598,114	-
A M Strauch	-	-	-	435,520	435,520	-

iii. Key management personnel equity holdings (continued)

Fully paid ordinary shares of MIKOH Corporation Limited

	Balance at 1 July	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June	Balance held nominally
2008						
D J Halley	11,539,623	-	-	28,572	11,568,195	-
J M Blomfield	1,193,132	-	-	-	1,193,132	-
J S Keniry	1,848,573	-	-	14,286	1,862,859	-
R O Holcomb	-	-	-	-	-	-
P S Atherton	8,420,000	-	100,000	(85,714)	8,434,286	-
G M Phipps	640,000	-	1,000,000	-	1,640,000	-
S R Van Fleet	-	-	-	-	-	-
A M Strauch	-	-	-	-	-	-

Share options of MIKOH Corporation Limited

	Balance at 1 July No.	**Granted as compen -sation No.**	**Exercised No.**	**Net other change No.**	**Bal at 30 June No.**	**Bal vested at 30 June No.**	**Vested but not exerci-sable No.**	**Vested and exercisabl e No.**	**Options vested during year No.**
2009									
P L Tyree	-	-	-	-	-	-	-	-	-
J M Blomfield	10,000,000	-	-	-	10,000,000	10,000,000	-	10,000,000	-
D J Halley	2,000,000	-	-	(1,000,000)	1,000,000	1,000,000	-	1,000,000	-
J S Keniry	2,000,000	-	-	(1,000,000)	1,000,000	1,000,000	-	1,000,000	-
R O Holcomb	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000	-
R Tayeh	-	-	-	-	-	-	-	--	
P S Atherton	3,900,000	-	-	(900,000)	3,000,000	3,000,000	-	3,000,000	-
G M Phipps	-	-	-	-	-	-	-	-	-
H Van Pelt	-	-	-	-	-	-	-	-	-
S R Van Fleet	1,500,000	-	-	-	1,500,000	1,500,000	-	1,500,000	750,000
A M Strauch	1,500,000	-	-	(1,500,000)	-	-	-	-	-
2008									
D J Halley	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000	1,000,000
J M Blomfield	10,000,000	-	-	-	10,000,000	10,000,000	-	10,000,000	6,000,000
J S Keniry	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000	1,000,000
R O Holcomb	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000	-
P S Atherton	4,000,000	-	(100,000)	-	3,900,000	3,900,000	-	3,900,000	-
G M Phipps	1,000,000	-	(1,000,000)	-	-	-	-	-	-
S R Van Fleet	1,500,000	-	-	-	1,500,000	750,000	-	750,000	750,000
A M Strauch	1,500,000	-	-	-	1,500,000	750,000	-	750,000	750,000

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

During the financial year no options (2008: 1,100,000) were exercised by key management personnel.

Further details of the employee share option plan and of share options granted during the 2009 and 2008 financial years are contained in notes 24 and 25 to the financial statements.

(c) Transactions with other related parties

Other related parties include:

- the parent entity
- subsidiaries
- other related parties.

25. Related Party Transactions (continued)

(c) Transactions with other related parties (continued)

Transactions between MIKOH Corporation Limited and its related parties

During the financial year, the following transactions occurred between the company and its other related parties:

- MIKOH Corporation Limited provided marketing and administration services to its subsidiaries to the value of $437,670 (2008: $995,622) on normal commercial terms and at market rates.
- MIKOH Corporation Limited derived interest revenue from its wholly owned controlled entities totalling of $996,841 (2008: $1,099,102).

The following balances arising from transactions between the company and its other related parties are outstanding at reporting date:

- Loans receivable totalling $29,255,210 are receivable from subsidiaries (2008: $23,990,496). A provision for doubtful debts of $28,433,911 has been provided against these loans (2008: $23,086,515).

All amounts advanced to or payable to related parties are unsecured and are subordinate to other liabilities.
The amounts outstanding will be settled in cash. No guarantees have been given or received. An expense of $5,347,396 (2008: $4,606,259) has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.
Transactions and balances between the company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

(d) Parent entities

The parent entity in the Group is MIKOH Corporation Limited. MIKOH Corporation Limited is incorporated in Australia.

26. Remuneration of auditor

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Auditor of the parent entity				
Audit or review of the financial report	68,500	72,600	68,500	72,600

The auditor of MIKOH Corporation Limited is Deloitte Touche Tohmatsu.

27. Subsequent events

On 17 September 2009 a private placement of 22,784.810 shares were made at a price of $0.079 per share totaling $1,800,000.

Other than the above no matters or circumstances have arisen since the end of the year that have significantly affected, or may significantly affect the operations, results of operations or state of affairs of MIKOH Corporation Limited and its subsidiaries in subsequent accounting periods.