MIKOH

2004 ANNUAL REPORT

This is annexure "A" of 39 pages (plus cover page)
referred to in Form 388 signed by me and dated
30 September 2004

Signed:………………………………….
Robert McDonald Barnes
Company Secretary

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Reporting Information
This financial report covers both MIKOH Corporation Limited as an individual entity and the consolidated entity consisting of MIKOH Corporation Limited and its controlled entities.

MIKOH Corporation Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Review of Operations and Activities on pages 2 to 3 and in the Directors' Report on pages 4 to 7.

Further information is available by reference to the company's web site address: www.mikoh.com or by contacting the company at the addresses set out below.

Company Particulars

Directors
I.L. Cameron (chairman)
P.S. Atherton
D.J. Halley
J.S. Keniry

Secretary
R. M. Barnes

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CHATSWOOD NSW 2067
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Web Sites: www.mikoh.com
www.mikohimaging.com

Share Register
Computershare Investor Services
Pty Limited
Level 3 60 Carrington Street
SYDNEY NSW 2000
GPO Box 7045
SYDNEY NSW 2001
Local enquiries: 1300 855 080
Telephone: 61 2 8234 5000
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Website:www.computershare.com

Stock Exchange Listing
Australian Stock Exchange
ASX Codes: MIK

Auditor
Horwath Sydney Partnership
Level 10
1 Market Street
SYDNEY NSW 2000

Solicitors
Freehills
MLC Centre
Martin Place
SYDNEY NSW 2000

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

The improvement in the 2004 trading results, with revenues up 77% to $2,732,089 and losses down by 83% to $293,429 (including the benefit received from the research and development tax off-set), confirms that the business strategy of targeted sales and cost containment is producing positive results.

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

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

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

Smart&Secure™

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

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

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

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

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

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

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

Digital Ink-Jet Systems

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

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

During the 2nd half of the year, MIS provided dedicated sales support to Castagnoli Form Consulta Srl (CFC), our new sales agent in Italy, providing them specific sales training and undertaking customer visits to assist in market development. In response CFC sold 3

systems in the first few months following their appointment and has recently arranged for two of their techni
undertake equipment installation and maintenance training, which was successfully completed in July 2004.

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

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

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

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

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

SubScribe™/COUNTERFOIL™

Our license arrangements in respect of MIKOH's original technologies covering SubScribe™ and COUNTERFOIL™ are continuing, with revenues for 2004 amounting to $119,188 (2003 $78,663). Our Sydney based licensee, Frontline Barcoding and Printing, continues to service the commercial inventory and asset tracking label market and during the year negotiated with a Hong Kong based company to supply SubScribe™ label products which is expected to provide increased sales opportunity into the Asian market.

Financial Results

The directors are pleased with the significant improvement in the financial results for the year ended 30 June 2004. The total net loss after income tax for the year ended 30 June 2004 amounted to $293,429 down from $1,742,091 in the 2003 year.

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

The following summary of the financial results over the past 5 years (including the benefit received from the research and development tax off-set) demonstrates the improvement in the trading performance achieved to date:-

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

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

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

I.L. Cameron
Chairman

30 September 2004
Sydney

Your directors present their report on the consolidated entity consisting of MIKOH Corporation Limited and the entities it controlled at the end of, or during, the year ended 30 June 2004.

1. Directors

The following persons were directors of MIKOH Corporation Limited during the whole of the financial year and up to the date of this report:

Mr Ian Leslie Cameron, CPA
Mr Cameron, a director for 6 years, was appointed a non-executive director on 8 April 1998, an executive director on 8 August 2001 and executive chairman of the board on 28 November, 2002. He has had extensive experience in the Information Technology sector for over 20 years and has served as finance director in both private and public corporations in that industry. He has worked in conjunction with multi-national companies both in Australia and overseas during that period, having responsibility for their Asian Regional Finance Operations and assisting in the introduction and development of new products, markets and alliances. He is a consultant to business in financial information management.

Dr Peter Samuel Atherton, PhD, B.Eng, FAICD
Dr Atherton, a director for 11 years, was appointed an executive director of the company on 1 June 1993 and was managing director until 8 August 2001. He is President and CEO of the group's US based subsidiary, MIKOH Corporation. Dr Atherton has a background in physics and prior to joining the company had spent 7 years in the telecommunications industry, heading research and development into optoelectronic technologies at OTC. He is the inventor of MIKOH's proprietary technologies Smart&Secure, COUNTERFOIL and SubScribe.

Mr Douglas James Halley, MBA, B.Com, FAICD, FFTP
Mr Halley, a director for 16 years, was appointed a non-executive director of the company on 12 January 1988 and is immediate past chairman. He has held senior executive positions in a number of major companies over the past 20 years (including IBM, John Fairfax Holdings, Goodman Fielder, Rothschild Australia and Hill Samuel Australia) covering finance, treasury, corporate development and general management. He is currently chief executive officer for Asia Pacific of Thomson Legal & Regulatory Limited. Mr Halley is chairman of the Audit Committee.

Dr John Stanley Keniry, PhD, B.Sc, FTSE, FRACI, FAICD
Dr Keniry, a director for 10 years, was appointed a non-executive director of the company on 11 March 1994. Dr Keniry is currently chairman of Ridley Corporation Limited and Sugar Australia Pty Limited. He is a board member of the NSW Environment Protection Authority, Gardner Smith Pty Ltd, the Australian Government's Industry Research and Development Board and a number of other private and public sector organisations and is immediate past president of The Australian Chamber of Commerce & Industry. Dr Keniry is a member of the Audit Committee.

2. Principal Activities

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

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

3. Dividends

No dividends were paid during the year. The directors of the company are not recommending the payment of a final dividend.

4. Review of Operations and Results

A full review of operations and results of the consolidated entity is included under the Review of Operations and Activities set out on pages 2 to 3.

5. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year, other than as a result of the issue of 11,750,000 ordinary shares raising $587,500 additional share capital less costs associated with the issue of $25,000.

6. Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 30 June 2004 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.

7. Likely Developments and Expected Results of Operations

Comments on expected results of certain of the operations of the consolidated entity are included under the Review of Operations and Activities set out on pages 2 to 3. Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

8. Directors' and Executives' Emoluments

Remuneration of directors and senior executives of the company is approved by the full board, having regard to comparative market remuneration for similar levels of responsibility. The company does not have a formal incentive programme linked to the performance of the company. Remuneration includes base salary (including consulting fees paid to director/officer related entities), superannuation, retirement and termination entitlements, performance related bonuses/sales commission and fringe benefits. executives are also eligible to participate in the MIKOH Employee Share Option Plan. Remuneration and other terms of employment for senior executives are formalised in service agreements.

Details for the year ended 30 June 2004 of the nature and amount of each element of the emoluments of each director of MIKOH Corporation Limited and each of the 5 executive officers of the company and of the consolidated entity receiving the highest emoluments are as follows:

Name	Base Salary/ Contract Fee $	Bonus/ Commission $	Super-annuation $	Fringe Benefits $	Options Granted $	Total $
Non-Executive Directors						
D.J. Halley	-	-	-	-	50,000	50,000
J.S. Keniry	-	-	-	-	50,000	50,000
Executive Directors						
I.L. Cameron	135,750	-	-	-	100,000	235,750
P.S. Atherton	230,476	-	2,394	21,948	50,000	304,818
Other Executives of the Company						
R.M. Barnes	36,000	-	-	-	-	36,000
Other Executives of the Consolidated Entity						
P.R. Anderson	193,500	26,282	-	-	3,049	222,831

There were 5,000,000 options over ordinary shares in the company granted on 25 September 2003 to the directors as approved by an Extraordinary General Meeting of shareholders held on 29 August 2003. Of these options 2,000,000 were granted to Mr Cameron and 1,000,000 to each of Messrs Atherton, Halley and Keniry. These options will entitle the holder to 1 ordinary share per option held and are exercisable at a price of 20 cents per share prior to 25 September 2008. The underlying share price on the grant date was 6.4 cents. In accordance with AASB 1046 Director and Executive Disclosures by Disclosing Entities these options have been independently valued as at grant date at 5 cents each and as the options immediately vest the total value attributable to the options is included in the above emoluments. At 30 June 2004 these options were valued at 4 cents each.

There were no other options over unissued ordinary shares of MIKOH Corporation Limited granted during or since the end of the financial year to any of the directors or the 5 most highly remunerated executive officers of the company and consolidated entity as part of their remuneration.

"Other executives" are officers who are involved in, concerned in, or who take part in, the management of the affairs of MIKOH Corporation Limited and/or related bodies corporate. For the year ended 30 June 2004 there were only two executives who satisfied this criterion.

Further information in respect of director and executive remuneration is set out in Note 26 of the Notes to the Financial Statements.

9. Share Options

The details of free options granted over ordinary issued shares during or since the end of the financial year in the capital of the company are as follows:

Transaction	Date	Number	Exercise Price	Exercise Period
Unlisted Options Granted:				
Unlisted options granted to directors	25/09/2003	5,000,000	20 cents	25/09/03 to 25/09/08

The number of options lapsed or forfeited during or since the end of the financial year in the capital of the company is as follows:

Transaction	Date	Number	Exercise Price	Event
Options Lapsed/Forfeited:				
Directors' options	22/09/03	500,000	25 cents	Lapsed
Other options	30/07/04	10,636,952	20 cents	Lapsed
Other options	10/09/04	812,500	5 cents	Lapsed

The number of options exercised during or since the end of the financial year in the capital of the company is as follows:

Transaction	Date	Number	Exercise Price	Exercise Date
Options Exercised:				
Other options	10/09/04	125,000	5 cents	10/09/04

The number of unissued ordinary shares of the company under option at the date of this report is as follows:

	Number	Exercise Price	Exercise Period
Unlisted Options:			
Directors' options	250,000	84 cents	25/11/99 to 25/11/04
Directors' options	5,000,000	20 cents	25/09/03 to 25/09/08
Other options	100,000	72 cents	04/11/00 to 04/11/04
Other options	4,000,200	15 cents	12/07/03 to 12/07/06

Each option held entitles the holder to one ordinary share in the capital of the company. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

10. Directors' Interests

The relevant interest of each director in the ordinary share capital and options to take up ordinary shares in the capital of the company as at the date of this report is as follows:

	Number of Shares	Number of Options
I.L. Cameron	283,332	2,000,000
P.S. Atherton	8,420,000*	1,000,000
D.J. Halley	9,370,273*	1,250,000
J.S. Keniry	1,494,182	1,000,000

* Due to the wide definition of an "entitlement" under the Corporations Act 2001, more than one person may have a beneficial entitlement to the same securities, consequently the above figures should not necessarily be aggregated.

Details of director related contracts, including directors' interests, are detailed in Note 26 to the Notes to the Financial Statements.

11. Environmental Regulation

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

12. Meetings of Directors

The number of meetings of the company's board of directors and of the audit committee held during the year ended 30 June 2004 and the numbers of meetings attended by each director were as follows:

Director	Directors' Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
I.L. Cameron	12	12	N/A	N/A
P.S. Atherton	12	12	N/A	N/A
D.J. Halley	12	11	2	2
J.S. Keniry	12	12	2	2

13. Indemnification and Insurance of Officers

During the year the Company paid a premium of $41,952 to insure the directors, company secretary and other executive officers of the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

No claims under the indemnity have been made against the company during or since the financial year under review.

14. Proceedings on behalf of the Company

No person has applied to the 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 those proceedings. No proceedings have been brought or intervened in or on behalf of the company with leave of the Court under sections 237 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

I.L. Cameron
Director

Sydney,
30 September 2004

The Board is responsible for protecting the rights and interests of the shareholders through the implementation of sound strategies and action plans and the development of an integrated framework of controls over the Company's resources, functions and assets. This process is achieved through the application of appropriate corporate governance policies and procedures given the size of the company and the scale of its operations.

The Board has undertaken a review of the company's corporate governance policies following the release of the Best Practice Recommendations issued by the Australian Stock Exchange (ASX) Corporate Governance Council in March 2003. As a result the company has enhanced its corporate governance policies, procedures and documentation - most recently in September 2004.

Full details of the company's corporate governance polices can be found on the company's website at www.mikoh.com, however, the company's primary corporate governance practices in place during the financial year are summarised below:-

Role of Board

The principal functions and responsibilities of the board include the following:

- To set the strategic direction for the company and monitor progress of those strategies;
- Establish policies appropriate for the company;
- Monitor the performance of the company, the board and management;
- Appoint and, if necessary, terminate the employment of chief executive officer and company secretary;
- Ratify the appointment and, if necessary, terminate the employment of the chief financial officer;
- Approve the business plan and work programmes and budgets;
- Authorise and monitor investment and strategic commitments;
- Review and ratify systems for health, safety and environmental management; risk and internal control; codes of conduct and regulatory compliance;
- Report to shareholders, including but not limited to, the Financial Statements of the company; and
- Take responsibility for corporate governance.

Board Composition

To add value to the company the board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given the company's current size and scale of operations. There are currently 4 directors, comprising 2 executive directors (including the chairman) and 2 non-executive directors. Full particulars of the directors including their length of service are set out in the Directors' Report.

The Board has adopted policies in respect of the determination of materiality which considers the quantitative, qualitative and cumulative effect of dealings with directors. Using the ASX Best Practice Recommendations on the assessment of the independence of directors the board considers that of a total of 4 directors 1 is considered to be independent, being Dr John Keniry.

Executive Chairman

As a consequence of the size of the business, which currently comprises 4 full time personnel other than the directors, the company does not have a chief executive officer. Accordingly the board has delegated responsibility for the day-to-day management activities to the executive chairman. The board has determined that the executive chairman is appropriately qualified and experienced to discharge the required responsibilities and that this arrangement is cost effective for the company.

Independent Professional Advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense.

Nomination Committee

The company does not have a nomination committee. The board is of the opinion that due to the nature and size of the company, the functions performed by a nomination committee can be adequately handled by the full board.

The full board is responsible for establishing criteria for board membership, election of the chairman, reviewing board membership, nominating directors and determining remuneration for both executive and non-executive board members. Board membership is reviewed regularly to ensure the board has an appropriate mix of qualifications, skills and experience. External advisers may be used to assist in this process. Candidates are appointed by the board and must stand for election at the next general meeting of shareholders.

The terms and conditions of appointment and retirement of non-executive directors are determined by the full board.

Ethical Standards
All directors, employees and consultants of the company are required to act with the utmost integrity and objectivity at all times in their dealings with each other, customers, suppliers, competitors, the consolidated entity and the community such principals are encompassed in Code of Conduct.

The intended purchase and sale of company securities by directors, employees and consultants must be notified to the company secretary in advance and is only permitted if the company secretary and the board are satisfied that the market is fully informed.

Audit Committee
The audit committee comprised during the year D.J. Halley (committee chairman) and J.S. Keniry. Particulars of the members of the audit committee are set out in the Directors' Report together with the number of committee meetings held during the year. The executive directors, company secretary and the external auditors may also attend audit committee meetings by invitation. In fulfilling its responsibilities, the committee meets and receives reports from the external auditors.

The audit committee provides a direct link between the board and the external audit functions. The committee is responsible for reviewing and reporting to the board that:-

- Accounting records are properly maintained in accordance with statutory requirements;
- Financial information provided to shareholders and the Board is accurate and reliable; and
- External audit functions are effective.

Continuous Disclosure
The company secretary has been appointed as the person responsible for communications with the ASX including communication of the continuous disclosure obligations of the company in accordance with the ASX listing rules and, in conjunction with the chairman, overseeing and co-ordinating information disclosure to shareholders, analysts, brokers, the media and the public.

Shareholder Communication
The continuous disclosure policies outlined above provide the framework for the communication to shareholders of important information in a timely manner including via electronic communication.

Identifying and Managing Business Risks
The board regularly monitors the operational and financial performance of the company and consolidated entities against budget and other key performance measures. The board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

Evaluation of Board Performance
The performance of the board, board committees and individual directors is reviewed from time to time by the full board. As a consequence of the size and scope of activities of the company, no formal measurement assessment has been undertaken in the 2004 financial year, however, such review is scheduled to be undertaken prior to the end of the 2005 financial year.

Remuneration Committee
The company does not have a remuneration committee. The board is of the opinion that due to the nature and size of the company, the functions performed by a remuneration committee can be adequately handled by the full board.

Remuneration Policies
The objective of the company's remuneration policy is to reward directors, employees and consultants in accordance with prevailing market conditions with the goal of attracting and retaining high quality people. The company believes that individuals should be rewarded for their contribution to the progress of the company (both financially and non-financially), measured against achievement of minimum sales forecasts and other strategic objectives. This remuneration strategy aligns with market best practice and creation of value for shareholders.

Remuneration is based on various reward components including salary and fees, bonuses and commissions on sales, non-monetary benefits (including motor vehicle), superannuation contributions, and options granted. The company obtains an independent valuation of share option based incentives to ascertain the value of potential benefits granted.

Non-executive directors are not provided with retirement benefits other than statutory superannuation. The level of remuneration is reviewed annually or as otherwise required. Full details of the remuneration of directors and specified executives is set out in the Directors' Report and Note 26 of the Notes to the Financial Statements

Review of Corporate Governance
The board has a plan to review its governance policies as the company develops and changes, including the level of independent directors, to ensure that it continues to meet effective governance appropriate for the circumstances of the company.

Non-Compliance Statement
The company has not followed all of the best practice recommendations set by the ASX Corporate Governance Council during the year. However, the Council acknowledges that adoption of all the recommendations will not be appropriate in all cases and states that "if a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it". Where a recommendation has not been adopted ASX Listing Rule 4.10.3 requires disclosure of the non-compliance and the reasons for the departure. Accordingly, recommendations not adopted and the reasons therefore are set out below:-

- **Recommendation 2.1:** *A majority of the board should be independent directors* – A majority of the directors (3 out of 4) are not considered to be independent. However, the skills, experience and knowledge of these 3 directors makes their contribution to the company and the board such that it is appropriate for them to remain on the board.
- **Recommendation 2.2 & 2.3:** *The chairperson should be an independent director/The roles of chairperson and chief executive officer should not be exercised by the same individual* – The company does not have a chief executive officer. Whilst not independent, Mr I.L. Cameron is the executive chairman. Given the size of the company and Mr Cameron's skills, experience and knowledge of the company, the board considers that it is appropriate for him to be executive chairman.
- **Recommendation 2.4:** *The board should establish a nomination committee* – The company does not have a nomination committee. The board is of the opinion that due to the nature and size of the company, the functions performed by a nomination committee can be adequately handled by the full board.
- **Recommendation 4.3:** *Structure the audit committee so that it consists of: a majority of independent directors, an independent chairperson, at least three members* – The audit committee is not comprised of a majority of independent directors as there are only 2 members, however, 1 is an independent director.
- **Recommendation 9.2:** *The board should establish a remuneration committee* - The company does not have a remuneration committee. The board is of the opinion that due to the nature and size of the company, the functions performed by a remuneration committee can be adequately handled by the full board.
- **Recommendation 9.3:** *Guideline 2. Non-executive directors should not receive options or bonus payments* – The non-executive directors have been granted share options as remuneration in lieu of fees and non-cash benefits. The grant of options to directors was approved by the shareholders.

The background as to the reasons the company has not followed all the recommendations include the following:-
- The company is a small technology company with limited financial and human resources;
- The company has confined its management structures to maximise the availability of resources for development of the business;
- The board comprises 4 directors, 2 of whom are active in the management of the company thereby effecting substantial savings in the costs of administration of the company; and
- The minimal organisational structure allows the company to respond quickly to opportunities and expedite solutions to problems as they arise.

The company recognises the importance of good corporate governance and notwithstanding its size and limited resources has endeavoured to meet the principles of good corporate governance and best practice recommendations set by the ASX Corporate Governance Council.

For the year ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Revenue from ordinary activities	2	**2,287,885**	1,318,485	**466,314**	407,270
Expenses by function:-					
Cost of goods sold		**(897,111)**	(460,950)	**-**	-
Manufacturing		**(246,895)**	(361,342)	**-**	-
Administration		**(617,777)**	(1,072,780)	**(695,382)**	(2,121,540)
Borrowing costs		**(3,831)**	-	**(3,721)**	-
Marketing and sales		**(534,229)**	(704,045)	**(60,640)**	(27,821)
Research and development		**(725,675)**	(684,313)	**-**	-
Profit (loss) from ordinary activities before related income tax expense	3 (a)	**(737,633)**	(1,964,945)	**(293,429)**	(1,742,091)
Income tax benefit (expense)	4	**444,204**	222,854	**-**	-
Profit (loss) from ordinary activities after related income tax expense		**(293,429)**	(1,742,091)	**(293,429)**	(1,742,091)
Net profit (loss) attributable to members of MIKOH Corporation Limited		**(293,429)**	(1,742,091)	**(293,429)**	(1,742,091)
Total changes in equity attributable to members of MIKOH Corporation Limited other than those resulting from transactions with owners as owners	16	**(293,429)**	(1,742,091)	**(293,429)**	(1,742,091)

	Note	2004	2003
Basic earnings (loss) per share	**17**	**(0.32) cents**	**(2.29) cents**
Diluted earnings (loss) per share	**17**	**(0.32) cents**	**(2.29) cents**

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

Statements of Financial Position

As at 30 June 2004

	Note	Consolidated		Parent Entity	
		2004	2003	**2004**	2003
		$	$	**$**	$
Current Assets					
Cash assets	**5**	**468,381**	208,048	**71,037**	30,763
Receivables	**6**	**299,853**	203,029	**1,521,602**	1,299,501
Inventories	**7**	**420,358**	398,711	**-**	-
Other assets	**8**	**252,123**	41,161	**38,738**	30,482
Total Current Assets		**1,440,715**	850,949	**1,631,377**	1,360,746
Non-Current Assets					
Plant and equipment	**10**	**309,468**	415,018	**16,193**	18,415
Intangible assets	**11**	**287,555**	429,007	**-**	-
Total Non–Current Assets		**597,023**	844,025	**16,193**	18,415
Total Assets		**2,037,738**	1,694,974	**1,647,570**	1,379,161
Current Liabilities					
Payables	**12**	**886,782**	684,726	**498,614**	369,813
Other	**13**	**56,250**	75,000	**56,250**	75,000
Total Current Liabilities		**943,032**	759,726	**554,864**	444,813
Non-Current Liabilities					
Payables	**12**	**62,778**	135,000	**62,778**	135,000
Provisions	**14**	**133,789**	114,930	**131,789**	114,030
Other	**13**	**-**	56,250	**-**	56,250
Total Non-Current Liabilities		**196,567**	306,180	**194,567**	305,280
Total Liabilities		**1,139,599**	1,065,906	**749,431**	750,093
Net Assets		**898,139**	629,068	**898,139**	629,068
Equity					
Parent entity interest					
Contributed equity	**15**	**19,806,433**	19,243,933	**19,806,433**	19,243,933
Retained profits (accumulated losses)	**16**	**(18,908,294)**	(18,614,865)	**(18,908,294)**	(18,614,865)
Total parent entity interest		**898,139**	629,068	**898,139**	629,068
Total Equity		**898,139**	629,068	**898,139**	629,068

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

Statements of Cash Flows

For the year ended 30 June 2004

	Note	Consolidated		Parent Entity	
		2004	2003	**2004**	2003
		$	$	**$**	$
Cash Flows from Operating Activities					
(inclusive of goods and services tax)					
Receipts from customers		**2,292,993**	1,522,943	**100,644**	254,187
Payments to suppliers and employees		**(2,861,774)**	(2,955,077)	**(555,592)**	(585,152)
		(568,781)	(1,432,134)	**(454,948)**	(330,965)
Interest received		**9,385**	4,900	**6,814**	2,531
Borrowing costs		**(3,831)**	-	**(3,721)**	-
Research & development tax off-set received		**264,204**	222,854	**-**	-
Net cash outflow from operating activities	**19**	**(299,023)**	(1,204,380)	**(451,855)**	(328,434)
Cash Flows from Investing Activities					
Payments for plant and equipment		**(1,496)**	(21,678)	**-**	-
Proceeds from sale of plant and equipment		**-**	5,403	**-**	5,403
Loans advanced to controlled entities		**-**	-	**(543,509)**	(1,266,575)
Loans repaid by controlled entities		**-**	-	**473,138**	218,850
Net cash outflow from investing activities		**(1,496)**	(16,275)	**(70,371)**	(1,042,322)
Cash Flows from Financing Activities					
Proceeds from the issue of shares		**587,500**	1,244,706	**587,500**	1,244,706
Payment for share issue expenses		**(25,000)**	(59,074)	**(25,000)**	(59,074)
Net cash inflow from financing activities		**562,500**	1,185,632	**562,500**	1,185,632
Net increase (decrease) in cash held		**261,981**	(35,023)	**40,274**	(185,124)
Cash at the beginning of the financial year		**208,048**	247,570	**30,763**	215,887
Effects of exchange rate changes on cash		**(1,648)**	(4,499)	-	-
Cash at the end of the financial year	**5**	**468,381**	208,048	**71,037**	30,763
Non-cash financing and investing activities	**20**				

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Following is a summary of material accounting policies adopted in the preparation of the financial statements:

(a) Going Concern

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

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

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

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

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by MIKOH Corporation Limited (the "company" or "parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. MIKOH Corporation Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased. There are no outside interests in the equity or results of controlled entities.

(c) Receivables/Payables

Trade debtors represent receivables for goods and services provided to customers, are generally settled within 90 days and are carried at amounts due. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

Trade and other creditors represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition or in accordance with agreed payment terms.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit (loss) after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset as the benefit cannot be regarded as being virtually certain of realisation. Similarly, income tax on net cumulative timing differences is not carried forward but expensed to the Statement of Financial Performance.

(e) Foreign Currency Translation

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

(f) Foreign Controlled Entities

The only trading foreign controlled entity is incorporated in the United States of America and is not self-sustaining. Accordingly, the temporal foreign currency translation method is applied, whereby monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, whilst non-monetary assets and liabilities are at historical rates. Income and expenses are translated at the actual rates ruling at the time of the transaction or for non-monetary items at historical rates. Exchange differences arising on translation are taken to the consolidated Statement of Financial Performance.

(g) Inventories

Finished goods, work in progress and raw materials are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock mainly on the basis of weighted average costs.

(h) Controlled Entities

Investments in controlled entities are recorded at cost. Where, in the opinion of the directors, there has been a permanent diminution in the value of an investment, the carrying amount of the investment is written down to its recoverable amount.

(i) Depreciation of Plant and Equipment

Depreciation is calculated on a straight line or diminishing value basis to write off the net cost of each item of plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives for plant and equipment are between 3 and 10 years.

(j) Research and Development/Patent Registration

Expenditure incurred on research and development activities and on patent registration is not capitalised but is expensed to the Statement of Financial Performance as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee Benefits

Liabilities for salaries, wages (including non-monetary benefits), annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for annual leave and long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary and wage levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and expensed when the employee benefits to which they relate are recognised as liabilities.

Contributions to employee superannuation funds are expensed as the contributions are paid or become payable.

(l) Intangible Assets

Purchased intellectual property is capitalised at cost of acquisition and amortised on a straight line basis over the periods of expected benefit, which is 5 years.

(m) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of assets given up.

(n) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount.

(o) Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. Revenue is recognised for the major business activities as follows:-

- Sales – Sales of goods are recognised upon delivery to customers.
- Other Revenue - Other revenue is recognised as earned and includes equipment lease, license fees, consulting fees, interest income on short-term investments, proceeds from the sale of non-current assets, net foreign exchange gains, export grants and sundry income.
- Unearned Income – Income received but not earned as at reporting date is treated as a current liability if expected to be earned within 12 months of reporting date or otherwise as a non-current liability.

(p) Cash

For the purpose of the statements of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Earnings (loss) per share

(i) Basic earnings (loss) per share

Basic earnings (loss) per share is determined by dividing net profit (loss) after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings (loss) per share

Diluted earnings (loss) per share adjusts the figures used in the determination of basic earnings (loss) per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings (loss) per share that will probably arise from the exercise of options outstanding during the financial year.

(r) International Financial Reporting Standards

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

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

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

	Consolidated		**Parent Entity**	
	2004	2003	**2004**	2003
	$	$	**$**	$
2. REVENUE				
Revenue from operating activities				
Sale of goods	**1,701,339**	934,631	**-**	-
Consulting fees	**352,486**	159,598	**-**	14,520
Equipment rental	**-**	60,794	**-**	-
License fees	**119,187**	78,663	**119,188**	78,663
Management and other fees – controlled entities	**-**	-	**80,000**	85,000
	2,173,012	1,233,686	**199,188**	178,183
Revenue from outside the operating activities				
Foreign exchange gains (net)	**16,408**	42,069	**-**	-
Interest – controlled entities	**-**	-	**260,313**	210,578
Interest – other	**9,385**	4,274	**6,813**	1,906
Proceeds on sale of non-current assets	**-**	5,403	**-**	5,403
Provision – employee entitlements	**-**	24,053	**-**	11,200
Provision – doubtful debts	**-**	9,000	**-**	-
Export market development grant	**88,962**	-	**-**	**-**
Sundry income	**118**	-	**-**	**-**
	114,873	84,799	**267,126**	229,087
Total revenue from ordinary activities	**2,287,885**	1,318,485	**466,314**	407,270

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
3. LOSS FROM ORDINARY ACTIVITIES				
(a) Net gains and expenses				
The loss from ordinary activities before income tax expense includes the following specific net gains and expenses:-				
Net gains				
Net gain on foreign currency transactions	**16,408**	42,069	**-**	-
Net amount reversed for:-				
Doubtful debts – trade debtors	**-**	9,000	**-**	-
Employee entitlements	**-**	24,053	**-**	-
Expenses				
Net loss on foreign currency transactions	**-**	-	**53,103**	637,422
Net loss on disposal of plant and equipment	**2,868**	19,695	**-**	15,459
Depreciation of plant and equipment	**104,178**	147,982	**2,222**	6,495
Borrowing costs – interest paid	**3,831**	-	**3,721**	-
Net amount provided for:-				
Amortisation - intellectual property	**141,452**	141,452	**-**	-
Write-down of inventory to net realisable value	**15,000**	249,631	**-**	-
Doubtful debts – controlled entities	**-**	-	**155,490**	833,216
Bad and doubtful debts – trade debtors	**13,255**	-	**-**	-
Write-down of investment in controlled entities	**-**	-	**-**	105,824
Employee entitlements	**25,109**	-	**-**	-
Rental expense relating to operating leases:-				
Minimum lease payments	**20,600**	23,318	**-**	-
Research and development	**725,675**	684,313	-	-

(b) Individually significant items

The loss from ordinary activities before income tax expense includes the following individually significant item expensed in the financial statements:-

Inventory write-down to net realisable value	**-**	249,631	**-**	-

(c) Auditors' remuneration

Remuneration of the auditors of the parent entity for:

Auditing or reviewing the financial reports	**26,000**	29,000	**26,000**	29,000
Other services – tax consulting	**1,000**	-	**1,000**	-

4. INCOME TAX

The income tax expense for the financial year is reconciled as follows:-

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
		$		$
Profit (loss) from ordinary activities before income tax expense	**(737,633)**	(1,964,945)	**(293,429)**	(1,742,091)
Income tax calculated at 30% (2003: 30%)	**(221,290)**	(589,484)	**(88,029)**	(522,627)
Tax effect of permanent differences:				
Research and development concessions	**(29,670)**	(38,427)	**-**	-
R&D tax off-set concession (adjustment)	**(232,495)**	41,351	**-**	-
Other sundry items	**6,431**	(186,548)	**(5,617)**	(4,114)
Income tax adjusted for permanent differences	**(477,024)**	(773,108)	**(93,646)**	(526,741)
Current year timing difference	**17,539**	35,302	**16,511**	(5,674)
Benefit of tax losses of prior years recouped	**(46,063)**	-	**-**	-
Future income tax benefit of current year loss not booked	**61,344**	323,788	**30,488**	59,539
Future income tax benefit of current year capital losses (profits) not booked	**-**	191,164	**46,647**	472,876
Income tax expense (benefit)	**(444,204)**	(222,854)	**-**	-

Future Income Tax Benefit

Future income tax benefits attributable to tax losses have not been brought to account in the consolidated financial statements at 30 June 2004 because the directors do not believe it is appropriate to regard realisation of the net future income tax benefit as virtually certain. The benefit of the tax losses will only be obtained if: -

(a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(b) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

The directors' estimate that the potential future income tax benefit at 30 June 2004 in respect of tax losses not brought to account amounts to $1,475,304 (2003 $1,712,261), however, there is no certainty of recovery of the benefit of such tax losses.

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
5. CASH ASSETS				
Current				
Cash on hand	**4,374**	2,385	**2,287**	2,385
Cash at bank	**464,007**	203,506	**68,750**	26,221
Cash on deposit	**-**	2,157	**-**	2,157
	468,381	208,048	**71,037**	30,763

Cash at bank is bearing a floating interest rate of 3.45% p.a. (2003 3% p.a.). All cash has maturity dates of less than 30 days from year end.

6. RECEIVABLES				
Current				
Trade debtors	**268,847**	186,562	**10,769**	19,669
Less: Provision for doubtful debts	**-**	-	**-**	-
	268,847	186,562	**10,769**	19,669
Loans to wholly owned controlled entities	**-**	-	**13,985,966**	13,617,494
Less: Provision for doubtful debts	**-**	-	**(12,496,625)**	(12,341,135)
	-	-	**1,489,341**	1,276,359
Other debtors	**31,006**	16,467	**21,492**	3,473
	299,853	203,029	**1,521,602**	1,299,501

The loans to Australian controlled entities are interest free other than to MIKOH Imaging Systems Pty Limited which is at 5% p.a. (2003 5% p.a.), whilst the loan to the foreign controlled entity is at 5% p.a. (2003 5% p.a.). No interest is chargeable on other debtors.

7. INVENTORIES				
Current				
Raw materials (at cost)	**133,566**	149,048	**-**	-
Raw materials (at net realisable value)	**1,442**	8,492	**-**	-
Finished goods (at cost)	**285,350**	233,171	**-**	-
Finished goods (at net realisable value)	**-**	8,000	**-**	-
	420,358	398,711	**-**	-

8. OTHER ASSETS				
Current				
Prepayments	**60,123**	41,161	**38,738**	30,482
Accrued income	**192,000**	-	**-**	-
	252,123	41,161	**38,738**	30,482

The accrued income included in other current assets represents the estimated amount receivable in respect of the year ended 30 June 2004 under the Commonwealth Government's export market development grant ($12,000) and research and development tax off-set concessions ($180,000). These amounts have not previously been accrued at year end as they were not able to be quantified or determined with any reasonable assurance until the preparation of the respective claims.

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
9. OTHER FINANCIAL ASSETS				
Shares in controlled entities (at cost)	**-**	-	**6,676,844**	6,676,844
Less: Provision for diminution in value	**-**	-	**(6,676,844)**	(6,676,844)
	-	-	**-**	-

10. PLANT AND EQUIPMENT				
Non-current				
Plant and equipment (at cost)	**996,975**	1,003,201	**215,881**	215,881
Less: Accumulated depreciation	**(687,507)**	(588,183)	**(199,688)**	(197,466)
	309,468	415,018	**16,193**	18,415
Reconciliation of Carrying Amounts				
Plant and equipment:-				
Carrying amount at the beginning of the year	**415,018**	431,567	**18,415**	39,293
Additions – from outside the consolidated entity	**1,496**	21,678	**-**	-
Additions – acquired from a controlled entity	**-**	-	**-**	6,479
Additions – capitalised from inventory (net)	**-**	134,853	**-**	-
Disposals	**(2,868)**	(25,098)	**-**	(20,862)
Depreciation expense	**(104,178)**	(147,982)	**(2,222)**	(6,495)
Carrying amount at the end of the year	**309,468**	415,018	**16,193**	18,415

11. INTANGIBLE ASSETS				
Non-current				
Intellectual property (at cost)	**707,260**	707,260	**-**	-
Less: Accumulated amortisation	**(419,705)**	(278,253)	**-**	-
	287,555	429,007	**-**	-

12. PAYABLES				
Current				
Trade and other creditors	**886,782**	684,726	**498,614**	369,813
Non-current				
Trade and other creditors	**62,778**	135,000	**62,778**	135,000

13. OTHER LIABILITIES				
Current				
Unearned income	**56,250**	75,000	**56,250**	75,000
Non-current				
Unearned income	**-**	56,250	**-**	56,250

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
14. PROVISIONS				
Non-current				
Employee benefits	**133,789**	114,930	**131,789**	114,030
Employee Benefit and Related On-Cost Liabilities				
Included in other creditors – current (note 12)	**32,884**	30,603	**17,000**	19,403
Provision: employee benefits – non-current (note 14)	**133,789**	114,930	**131,789**	114,030
	166,673	145,533	**148,789**	133,433
Employee Numbers				
The number of employees at the reporting date are as follows:	**3 employees**	4 employees	**-**	1 employees
Details of options granted to employees are set out in Note 18.				
15. CONTRIBUTED EQUITY				
Issued and Fully Paid-Up Share Capital				
96,669,433 (2003 84,919,433) Ordinary shares	**19,806,433**	19,243,933	**19,806,433**	19,243,933
(For further details regarding share capital and share options refer Note 18)				
16. ACCUMULATED LOSSES				
Accumulated Losses				
Balance at beginning of year	**(18,614,865)**	(16,872,774)	**(18,614,865)**	(16,872,774)
Total changes in equity recognised in the Statements of Financial Performance	**(293,429)**	(1,742,091)	**(293,429)**	(1,742,091)
Balance at end of year	**(18,908,294)**	(18,614,865)	**(18,908,294)**	(18,614,865)
17. EARNINGS PER SHARE				
Basic earnings (loss) per share (in cents)	**(0.32)**	(2.29)		
Diluted earnings (loss) per share (in cents)	**(0.32)**	(2.29)		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings (loss) per share	**91,372,302**	76,041,449		
Number of ordinary shares issued since the reporting date	**125,000**	-		
Reconciliation of earnings used in calculating earnings per share:-				
Net profit (loss) and earnings (loss) used in calculating basic and diluted earnings per share	**(293,429)**	(1,742,091)		

MIKOH Corporation Limited does not have any potentially dilutive ordinary shares in the financial years ended 30 June 2004 and 30 June 2003. The share options have not been included in the determination of basic or dilutive earnings (loss) per share. Details relating to the options are set out in Note 18.

18. SHARES AND OPTIONS

Share Capital

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

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

Ordinary shares entitle the unit holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Directors' Options (unlisted)

There were 5,000,000 unlisted options granted to directors during the year (2003 nil). Particulars of unlisted options to directors as at 30 June 2004 are as follows:

- The 250,000 free options granted on 25 November 1999 to a director, as approved by special resolution at the Annual General Meeting of shareholders on 25 November, 1999, will entitle the holder to 1 ordinary share per option held. These options are exercisable at a price of 84 cents per share prior to 25 November 2004. The exercise price of these options was 10 cents above the market value of ordinary shares at the date of issue.
- The 5,000,000 free options granted on 25 September 2003 to four directors, as approved by an Extraordinary General Meeting of shareholders on 29 August, 2003, will entitle the holders to 1 ordinary share per option held. These options are exercisable at a price of 20 cents per share prior to 25 September 2008. The exercise price of these options was 16 cents above the market value of ordinary shares at the date of issue.

The number of director options exercised during the year amounted to nil (2003 nil) and the number lapsed amounted to 500,000 (2003 nil). The number of unissued ordinary shares under these unlisted directors' options as at 30 June 2004 was 5,250,000 (2003 750,000) and the market value per ordinary share at that date was 4.3 cents (2003 5.2 cents).

Other Options (unlisted)

There were no unlisted options granted during the year (2003 937,500). Particulars of other unlisted options as at 30 June 2004 are as follows:

- The 100,000 free options granted on 4 November 1999 to the company secretary, will entitle the holder to 1 ordinary share per option held. These options are exercisable at a price of 72 cents per option prior to 4 November 2004.
- The 4,000,200 free options granted on 7 January 2002 to employees and contractors will entitle the holders to 1 ordinary share per option held. These options are exercisable at a price of 15 cents per share between 12 July 2003 and 12 July 2006.
- The 937,500 free options granted on 10 March 2003 under a private placement will entitle the holders to 1 ordinary share per option held. These options are exercisable at a price of 5 cents per share between 10 March 2003 and 10 September 2004.

The number of other unlisted options exercised during the year amounted to nil (2003 nil). The number of unissued ordinary shares under these other unlisted options as at 30 June 2004 was 5,037,700 (2003 5,037,700) and the market value per ordinary share at that date was 4.3 cents (2003 5.2 cents).

Other Options (listed)

There were no listed options granted during the year (2003 10,636,952). Particulars of other listed options as at 30 June 2004 are as follows:

- The 10,636,952 free options granted between 30 July 2002 and 21 October 2002 under a rights issue to shareholders, will entitle the holder to 1 ordinary share per option held. These options were exercisable at a price of 20 cents per option prior to 30 July 2004.

The number of other listed options exercised during the year amounted to nil (2003 nil). The number of unissued ordinary shares under these other listed options as at 30 June 2004 was 10,636,952 (2003 10,636,952) and the market value per ordinary share at that date was 4.3 cents (2003 5.2 cents) and the market value per listed option at that date was nil (2003 1 cent).

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
19. CASH FLOW INFORMATION				
Reconciliation of loss from ordinary activities after income tax to net cash flows from operating activities is as follows:-				
Profit (loss) from ordinary activities after income tax	**(293,429)**	(1,742,091)	**(293,429)**	(1,742,091)
Add (less) non-cash flows included in loss:-				
Amortisation	**141,452**	141,452	**-**	-
Depreciation	**104,178**	147,982	**2,222**	6,495
Net loss on sale of non-current assets	**2,868**	19,695	**-**	15,459
Provision for diminution – controlled entities	**-**	-	**-**	105,824
Provision for doubtful debt – controlled entities	**-**	-	**155,490**	833,216
Provision for doubtful debts – trade debtors	**-**	(9,000)	**-**	-
Net exchange differences	**1,648**	4,499	**-**	-
Change in operating assets and liabilities:				
Decrease (increase) in other debtors and prepayments	**(307,786)**	32,390	**(17,375)**	(32,049)
Decrease (increase) in inventories	**(21,647)**	232,648	**-**	-
Increase (decrease) in trade/other creditors, provisions and unearned income	**73,693**	102,898	**(662)**	143,077
Decrease (increase) in management fees and other charges to/from controlled entities	**-**	-	**(298,101)**	341,635
Net transfer of items of inventory to plant and equipment (investing activity)	**-**	(134,853)	**-**	-
Net cash inflow (outflow) from operating activities	**(299,023)**	(1,204,380)	**(451,855)**	(328,434)

20. NON-CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated 2004	Consolidated 2003	Parent Entity 2004	Parent Entity 2003
Non-cash transactions between operating, investing and financing activities included:-				
Conversion of loan to controlled entity into equity	**-**	-	**-**	1,865,671
Acquisition of plant and equipment by the company from a controlled entity	**-**	-	**-**	6,479
Net transfer between operating activities and investing activities as follows:-				
Inventory transferred to plant and equipment	**-**	134,853	**-**	-

	Consolidated		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
21. CONTINGENT LIABILITIES				
The parent entity has service agreements under which termination benefits may, in appropriate circumstances, become payable of a maximum amount as follows:-				
To a director of the parent entity	**285,947**	79,602	**285,947**	79,602
To a director of a controlled entity	**48,375**	36,750	**48,375**	36,750
To other employees and contractors	**76,063**	69,998	**76,063**	69,998
	410,385	186,350	**410,385**	186,350

The parent entity has issued a letter of support for controlled entities to enable them to pay their agreed bona fide debts as and when they fall due. Any liability that may arise as a result is not expected to be material to the consolidated entity.

22. COMMITMENTS FOR EXPENDITURE

Lease commitments

Aggregate operating lease expenditure contracted for at reporting date but not provided for in the accounts:-

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Payable within 1 year	**20,600**	20,600	**20,600**	20,600
Payable between 1 and 5 years	**858**	858	**858**	858
	21,458	21,458	**21,458**	21,458
Representing: Non-cancellable operating leases	**21,458**	21,458	**21,458**	21,458

Commitments

There have been no changes to the contingent liabilities or contingent assets of the consolidated entity since the last annual reporting date.

23. FINANCIAL INSTRUMENTS

Credit Risk Exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Interest Rate Risk Exposure

The consolidated entity's exposure to interest rate risk is limited to cash at bank and on deposit which at year-end amounted to $464,007 (2003 $205,663). As indicated under Note 5 the weighted average interest rate applicable to these financial assets at year-end was 3.45% p.a. (2003 3% p.a.).

Net Fair Value of Financial Assets and Liabilities

(i) On-Balance Sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value. The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

(ii) Off-Balance Sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 21. As explained in that note, no material losses are anticipated in respect of any of those contingencies and the directors' estimate that the net fair value of amounts which would be payable by the consolidated entity as consideration for the assumption of those contingencies by another party at year end is $410,385 (2003 $186,350).

24. EVENT OCCURING AFTER BALANCE DATE

There have been no significant events since 30 June 2004.

25. SEGMENT INFORMATION

Business Segments (Primary Segment Reporting)

The consolidated entity is organised on a global basis into the following divisions by product and service type:-

- **Security Technologies**
  The Security Technologies comprise the Smart&Secure, SubScribe and COUNTERFOIL products and related activities.

- **Digital Imaging Technologies**
  The Digital Imaging Technologies comprise the ink-jet digital printing technologies for the commercial printing industry.

Geographical Segments (Secondary Segment Reporting)

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

- **Australia**
  The Digital Imaging Technologies, together with the SubScribe and COUNTERFOIL component of the Security Technologies, are conducted in Australia. This is also the home of the parent entity.

- **USA**
  The Smart&Secure component of the Security Technologies is conducted in the USA.

25. SEGMENT INFORMATION (continued)

Primary Reporting – Business Segments - 2004

2004	**Security Technologies $**	**Digital Imaging Technologies $**	**Inter-Segment Eliminations Unallocated $**	**Consolidated $**
Sales to external customers	606,441	1,094,898	-	1,701,339
Inter-segment sales	-	-	-	-
Total sales revenue	606,441	1,094,898	-	1,701,339
Other revenue	471,673	534,977	19,680	1,026,330
Total segment revenue	1,078,114	1,629,875	19,680	2,727,669
Segment result	154,121	(65,638)	(381,912)	(293,429)
Unallocated revenue less unallocated expenses				-
Profit (loss) from ordinary activities before income tax expense				(293,429)
Income tax expense				-
Net profit (loss) from ordinary activities after income tax expense				(293,429)
Segment assets	331,308	1,558,970	147,460	2,037,738
Unallocated assets				-
Total assets				2,037,738
Segment liabilities	2,552,823	3,741,865	(5,155,089)	1,139,599
Unallocated liabilities				-
Total liabilities				1,139,599
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	1,496	-	1,496
Depreciation and amortisation expense	21,637	221,771	2,222	245,630
Other non-cash expenses	34,325	8,652	-	42,977

25. SEGMENT INFORMATION (continued)

Primary Reporting – Business Segments - 2003

2003	Security Technologies $	Digital Imaging Technologies $	Inter-Segment Eliminations Unallocated $	Consolidated $
Sales to external customers	87,635	846,996	-	934,631
Inter-segment sales	-	-	-	-
Total sales revenue	87,635	846,996	-	934,631
Other revenue	348,616	221,229	36,863	606,708
Total segment revenue	436,251	1,068,225	36,863	1,541,339
Segment result	(854,535)	(823,082)	(64,474)	(1,742,091)
Unallocated revenue less unallocated expenses				-
Profit (loss) from ordinary activities before income tax expense				(1,742,091)
Income tax expense				-
Net profit (loss) from ordinary activities after income tax expense				(1,742,091)
Segment assets	195,295	1,416,546	83,133	1,694,974
Unallocated assets				-
Total assets				1,694,974
Segment liabilities	2,544,878	3,370,652	(4,849,624)	1,065,906
Unallocated liabilities				-
Total liabilities				1,065,906
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	5,414	151,117	-	156,531
Depreciation and amortisation expense	35,841	247,098	6,495	289,434
Other non-cash expenses	143,429	126,508	15,459	285,396

25. SEGMENT INFORMATION (continued)

Secondary Reporting – Geographical Segments

	Segment Revenues from Sales to External Customers		Segment Assets		Acquisitions of Property, Plant and Equipment, Intangibles and other Non-Current Segment Assets	
	2004	2003	**2004**	2003	**2004**	2003
	$	$	**$**	$	**$**	$
Australia	**1,094,898**	870,721	**1,717,199**	1,538,748	**1,496**	151,117
USA	**606,441**	63,910	**320,539**	156,226	**-**	5,414
Inter-segment eliminations	**-**	-	**-**	-	**-**	-
	1,701,339	934,631	**2,037,738**	1,694,974	**1,496**	156,531

Notes to and forming part of the segment information

(a) Accounting Policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and AASB 1005 *Segment Reporting.*

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, inter-segment loans and employee benefits. Segment assets and liabilities do not include income taxes.

(b) Segment Margins

	Security Technologies		Digital Imaging Technologies	
	2004	2003	**2004**	2003
	%	%	**%**	%
Gross margin %	**24**	26	**60**	53

Gross margins are measured as revenues less cost of goods sold, being labour and related on-costs as well as direct material costs, as a percentage of revenues.

26. REMUNERATION OF DIRECTORS AND EXECUTIVES

Directors
The following persons were directors of MIKOH Corporation Limited during the financial year:-

Executive Directors
I.L. Cameron, executive chairman
P.S. Atherton, director and President of North American operations

Non-Executive Directors
D.J. Halley
J.S. Keniry

Specified Executives (other than directors)
The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:-

P.R. Anderson, director and manager of MIKOH Imaging Systems Pty Limited
M. Joseph, Vice President of North American operations (for the 2003 year only)
R.M. Barnes, company secretary of MIKOH Corporation Limited

No other employee or contractor of the consolidated entity is considered to satisfy the tests of a specified executive and accordingly for the year ended 30 June 2004 there are only 2 specified executives (2003 - 3 specified executives).

All of the above were also specified directors and/or executives during the year ended 30 June 2003.

Principals Used to Determine the Nature and Amount of Remuneration
The objective of the company's remuneration policy is to reward directors, officers and employees in accordance with prevailing market conditions with the goal of attracting and retaining high quality people.

The company believes that individuals should be rewarded for their contribution to the progress of the company (both financially and non-financially), measured against achievement of minimum sales forecasts and other strategic objectives. This remuneration strategy aligns with market best practice and creation of value for shareholders.

Remuneration is based on various reward components including salary and fees, bonuses and commissions on sales, non-monetary benefits (including motor vehicle), superannuation contributions, and options granted.

Non-executive directors receive no remuneration other than by way of grant of options. Further information in relation to options is set out later in this note and in note 18.

Details of Remuneration
Details of the remuneration of each director of the company and each of the specified executives of the consolidated entity, including their personally-related entities, for the year ended 30 June 2004 are set out in the following tables:-

Name	Base Salary/ Contract Fee $	Bonus/ Commission $	Non-Cash Benefits $	Super-annuation $	Options Granted $	Total $
Directors						
I.L. Cameron	135,750	-	-	-	100,000	235,750
P.S. Atherton	230,476	-	21,948	2,394	50,000	304,818
D.J. Halley	-	-	-	-	50,000	50,000
J.S. Keniry	-	-	-	-	50,000	50,000
Total – 2004	366,226	-	21,948	2,394	250,000	640,568
Total – 2003	414,339	-	20,527	2,394	-	437,260

26. REMUNERATION OF DIRECTORS AND EXECUTIVES (Continued)

Details of Remuneration (continued)

Name		Base Salary/ Contract Fee $	Bonus/ Commission $	Non-Cash Benefits $	Super-annuation $	Options Granted $	Total $
Specified Executives							
P.R. Anderson		193,500	26,282	-	-	3,049	222,831
R.M. Barnes		36,000	-	-	-	-	36,000
	Total - 2004	229,500	26,282	-	-	3,049	258,831
	Total - 2003	368,304	58,303	-	6,545	92,743	525,895

Information for individual directors and specified executives for the year ended 30 June 2003 is not shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities, however, the total remuneration for each classification for the 2003 year is set out above.

Amounts disclosed for remuneration of directors and specified individuals exclude insurance premiums of $41,952 paid by the consolidated entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Further information relating to the insurance contracts is set out in the Directors' Report.

Service Agreements
The key remuneration provisions contained in service agreements with executive directors and specified executives are as follows:-

I.L. Cameron, executive chairman
- Term of agreement – No fixed term
- Base consulting fee of $1,000 per month plus $750 per consulting day to be reviewed annually by the board
- No other benefits are payable under the agreement

P.S. Atherton, director – President of North American operations
- Term of agreement – 2 years commencing 1 January 2004
- Base salary for the year ending 31 December 2004 of US$170,000, to be reviewed annually by the board
- Other benefits include provision of motor vehicle, medical insurance and conditional relocation expenses
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to the base salary for the remaining period to 30 April 2005 plus the equivalent of 4 months base salary

P.R. Anderson, director and Manager of MIKOH Imaging Systems Pty Limited
- Term of agreement – 2 years commencing 1 July 2003
- Base consulting fee for the year ending 30 June 2005 of $193,500 plus sales commission and bonuses based on achievement of predetermined targets
- No other benefits are payable under the agreement
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is the equivalent of 3 months base consulting fee

26. REMUNERATION OF DIRECTORS AND EXECUTIVES (Continued)

Share-Based Compensation - Options
The terms and conditions of each grant of options affecting remuneration in this or future periods are as follows:-

Grant Date	Expiry Date	Exercise Price	Value of Option at Grant Date	Date Exercisable
7/1/2002	12/7/2006	15 cents	6 cents	Between 12/7/2003 & 12/7/2006
25/9/2003	29/08/2003	20 cents	5 cents	After 25/9/2003

Further details in respect of these options are set out in Note 18.

Options Provided as Remuneration
Details of the options over ordinary shares in the company provided as remuneration to each director of the company and each of the specified executives of the consolidated entity, including their personally-related entities, for the year ended 30 June 2004 are set out in the following tables:-

Name	Number of Options Granted During the Year	Number of Options Vested During the Year
Directors		
I.L. Cameron	2,000,000	2,000,000
P.S. Atherton	1,000,000	1,000,000
D.J. Halley	1,000,000	1,000,000
J.S. Keniry	1,000,000	1,000,000
Specified Executives		
P.R. Anderson	-	2,333,400

The assessed fair value at grant date of options granted to directors and specified executives is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

No remuneration options were exercised during the year ended 30 June 2004.

Equity Interests - Options
The number of options over ordinary shares in the company held by each director of the company and each of the specified executives of the consolidated entity, including their personally-related entities, during the year ended 30 June 2004 are set out in the following tables:-

Name	Balance 1/7/2003	Granted During the Year as Remuneration	Exercised During the Year	Other Changes During the Year	Balance 30/6/2004	Vested & Exercisable at the End of the Year
Directors						
I.L. Cameron	250,000	2,000,000	-	(250,000)	2,000,000	2,000,000
P.S. Atherton	-	1,000,000	-	-	1,000,000	1,000,000
D.J. Halley	250,000	1,000,000	-	-	1,250,000	1,250,000
J.S. Keniry	250,000	1,000,000	-	(250,000)	1,000,000	1,000,000
Specified Executives						
P.R. Anderson	2,333,400	-	-	-	2,333,400	2,333,400
R.M. Barnes	100,000	-	-	-	100,000	100,000

26. REMUNERATION OF DIRECTORS AND EXECUTIVES (Continued)

Other Transactions
Details of other transactions with directors and specified executives are as follows:-

The company secretary, Mr R.M. Barnes, is a partner in the firm of Stewart, Brown & Co, Chartered Accountants. Stewart, Brown & Co and its associated entities have provided accountancy, secretarial and taxation services, and office facilities to the company and its controlled entities for several years on normal commercial terms and conditions.

The aggregate amounts recognised as an expense during the year for each of the above types of other transactions with specified executives is as follows:-

	2004	2003
	$	$
Amounts Recognised as an Expense:-		
Professional fees (accounting, tax , secretarial)	**99,000**	87,000
Office rental	**8,640**	9,680
	107,640	96,680

The aggregate amounts recognised as a liability as the end of the financial year for each of the above types of other transactions with specified executives is as follows:-

	2004	2003
	$	$
Amounts Recognised as a Liability:-		
Current liability	**148,821**	87,000
	148,821	87,000

27. RELATED PARTY INFORMATION

Directors and Specified Executives
The relevant disclosures in relation to directors and specified executives are set out in Note 26.

Wholly-Owned Group
The ultimate parent entity is MIKOH Corporation Limited. The wholly owned group consists of MIKOH Corporation Limited and its wholly owned controlled entities, MIKOH Technology Limited, MIKOH Pty Limited, MIKOH Imaging Systems Pty Limited, MIKOH Corporation, MIKOH Technologies, Inc and MIKOH Asia Limited. All companies are incorporated in Australia other than MIKOH Corporation and MIKOH Technologies, Inc which are incorporated in the United States of America and MIKOH Asia Limited which is incorporated in Hong Kong.

Transactions between MIKOH Corporation Limited and other entities in the wholly owned group during the years ended 30 June 2004 and 2003 consisted of:

(a) Loans advanced by MIKOH Corporation Limited to controlled entities;
(b) Loans repaid to MIKOH Corporation Limited by controlled entities;
(c) Provision of marketing and administration services by MIKOH Corporation Limited to controlled entities;
(d) Interest charged on loans by MIKOH Corporation Limited to certain controlled entities;
(e) Conversion of debt owing by a controlled entity to MIKOH Corporation Limited to share capital in 2003 only;
(f) Purchase by MIKOH Corporation Limited of plant and equipment from a controlled entity in 2003 only;
(g) Purchase by MIKOH Corporation Limited of licensing rights from a controlled entity in 2003 only.

The above transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by MIKOH Corporation Limited and loans are interest free other than to MIKOH Corporation which is at 5% p.a. (2003 5% p.a.) and to MIKOH Imaging Systems Pty Limited which is at 5% p.a. (2003 5% p.a.).

	Parent Entity	
	2004	2003
	$	$
The aggregate amounts included in the determination of loss from ordinary activities before income tax that resulted from specific transactions with entities in the wholly-owned group:-		
Interest revenue	**260,313**	210,578
Increase in provision for doubtful loans to wholly owned controlled entities	**(155,490)**	(833,216)
Increase in provision for diminution in value of controlled entity	**-**	(105,824)
The aggregate amounts receivable from entities in the wholly owned group at reporting date:-		
Current receivables (loans)	**13,985,966**	13,617,494
Less Provision for doubtful debt	**(12,496,625)**	(12,341,135)
The aggregate amounts brought to account in relation to other transactions with each class of other related parties:-		
Acquisition of plant and equipment by the company from a controlled entity	**-**	6,479
Increase in investment in controlled entity:-		
The company acquired additional shares in a controlled entity as follows:-		
MIKOH Corporation	**-**	1,865,671

For the year ended 30 June 2004

The directors declare that the financial statements and notes set out on pages 11 to 34:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

I.L. Cameron

Director

Sydney
30 September 2004

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, and accompanying notes to the financial statements for both MIKOH Corporation Limited (the company) and the consolidated entity, and the directors' declaration for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether MIKOH Corporation Limited and the controlled entities will continue as a going concern and therefore whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Dated the 30th day of September 2004.

HORWATH Sydney Partnership
Chartered Accountants

Alfred Nehama
Partner

HORWATH SYDNEY PARTNERSHIP
Chartered Accountants
A member of Horwath International

Level 10, 1 Market Street
SYDNEY NSW 2000

The shareholder information set out below was applicable as at 16 September 2004.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	Quoted Ordinary Shares	Quoted Ordinary Options	Unquoted Ordinary Options
1 - 1,000	209	-	-
1,001 - 5,000	490	-	-
5,001 - 10,000	343	-	-
10,001 - 100,000	713	-	1
100,001 - and over	150	-	8
Total number of holders	1,905	-	9
Total securities issued	96,794,433	-	9,350,200

There were 1,044 holders of less than a marketable parcel of quoted ordinary shares.

B. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the company as at 16 September 2004 are as follows:-

Name	Number held of Ordinary Shares	Percentage of Issued Shares
Ocean Allied Assets Limited	10,000,000	10.34
Fianza Pty Limited	8,420,000	8.71
Midhurst Associates Pty Limited (related to Fianza Pty Limited)	948,265	0.98
Douglas James Halley (related to Fianza Pty Limited)	2,008	-

C. VOTING RIGHTS

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Option holders have no voting rights.

D. RESTRICTED SECURITIES AND BUY-BACK ARRANGEMENTS

There are no restricted securities on issue.
There is no “on-market” buy-back of securities as at 16 September 2004.

E. UNQUOTED EQUITY SECURITIES

The names of persons holding 20% or more of the unquoted ordinary options are as follows:

Name	Number of Ordinary Unquoted Options Held
Peter Anderson	2,333,400
Ian Cameron	2,000,000

F. TWENTY LARGEST EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted ordinary shares are listed below:

	Ordinary Shares	
Name	**Number Held**	**Percentage of Issued Shares**
Ocean Allied Assets Limited	10,000,000	10.33
Fianza Pty Limited	8,420,000	8.70
Brian Dunn Investments Pty Limited	2,000,000	2.07
Hydnpark Manor Pty Limited	2,000,000	2.07
Yarrandi Holdings Pty Limited	1,625,000	1.68
Mr Richard Whitington	1,291,200	1.33
Woodford Australia Pty Limited	1,200,000	1.24
Mr Robert Polwarth	1,050,202	1.09
Midhurst Associates Pty Ltd	948,265	0.98
Delregal Pty Limited	924,205	0.96
Mr Peter Michael Mallach	900,000	0.93
Mintego Pty Limited	865,518	0.89
KSP Holdings Pty Limited	805,637	0.83
National Nominees Limited	805,643	0.83
I.T.I. Nominees Pty Limited	692,600	0.72
Mrs Rachel Varughese	691,666	0.71
Ms Elizabeth Anne Cohen	691,080	0.71
Lakelands Investments Pty Limited	688,545	0.71
Mr Malcolm John Menday	628,958	0.65
Marcon Imports Pty Limited	600,012	0.62
Total	36,828,531	38.05