



Powering The Future

ADVANCED ENERGY SYSTEMS

ASX Release 31 August 2004

APPENDIX 4E COMMENTARY

The FYE 30 June 2004 result (subject to audit) yielded a Group loss of \$2.713m and varies from the previous estimate of a loss of \$2.0m. The reason for the variance can be explained by two issues that became apparent from an Audit of the PPS Enviro Accounts in India and only became known when finalizing the year end accounts. The first issue related to the reversal of approximately \$500,000 of sales accrued incorrectly in June 2003 and subsequently reversed in the 2004 Accounts. The second issue relates to an overstatement of Reserves in June 2003 of \$121,000. These two issues represent the majority of the discrepancy between estimated and actual results.

The significant decline in Revenue (down by \$7.25m) from 2003 can be largely attributed to:

- A decline in opportunities in the Australian market.
- A strategic decision to concentrate on core manufactured product rather than turnkey projects has substantially lowered the available revenue on projects.
- Slowness in some of our key Asian Markets due to restricted supply of Solar panels to the Region. A significant surge in demand has occurred in Europe and has consumed a large proportion of the available solar panel capacity.
- General Elections have occurred in Asia in several of our major target market countries and have disrupted the remote location power generation programs.

The underlying results (after adjustment of the two errors from the PPS Enviro Accounts of \$621,000) shows a second half profit improvement.

| | |
|----------------------------|-------------|
| First Half loss after tax | \$1,295,000 |
| Second Half loss after tax | \$ 796,000 |

On 30th August 2004 the Company appointed an Administrator.

Steve Purnell
CEO

Advanced Energy Systems Limited
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Advanced Energy Systems Limited and its Controlled Entities

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Results for announcement to the market for the year ended 30 June 2004

| | 2004 \$'000 | 2003 \$'000 | | Change % |
|---|----------------|----------------|------|-------------|
| Revenue from ordinary activities | 9,680 | 16,933 | down | 42.8 |
| Share of profit/(loss) of associates | 12 | 6 | | |
| Total Revenue | 9,692 | 16,939 | down | 42.7 |
| Earnings before interest, tax and amortisation | (2,228) | 590 | down | 477.6 |
| Earnings before interest and amortisation | (2,179) | 577 | down | 477.6 |
| Amortisation | (270) | (273) | | |
| Profit from ordinary activities after tax attributable to members | (2,713) | 163 | down | 1764.4 |
| Extraordinary items | - | - | | |
| Net profit/(loss) attributable to members | (2,713) | 163 | down | 1764.4 |
| | | | | |
| Basic earnings per share (cents) | (0.48) | 0.03 | | |
| Diluted earnings per share | n.a. | n.a. | | |

Dividends

No dividend has been declared for this and the preceeding financial period

| Dividends (distributions) | Amount per security | Franked amount per security |
|---|---------------------|-----------------------------|
| Final dividend | | |
| Interim dividend | | |
| Brief explanation of any of the figures reported above, necessary to enable the figures to be understood: | | |
| For explanation see announcement text. | | |

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Statements of Financial Performance for the year ended 30 June 2004

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| Revenue from sale of goods | 3,440 | 4,172 |
| Revenue from construction contracts | 6,120 | 12,273 |
| Revenue from government subsidies | 8 | - |
| Revenue from services | 81 | 523 |
| Revenue from other operating activities | 9 | 23 |
| Gains/(losses) on foreign exchange | (37) | (96) |
| Interest received – other persons/corporations | 22 | 36 |
| Proceeds on disposal of Property, Plant and Equipment | 37 | 2 |
| Share of net profit/(loss) of associate accounted for by using the equity | 12 | 6 |
| Total revenue | 9,692 | 16,939 |
| Purchase of raw materials and consumables used | (9,565) | (11,470) |
| Changes in inventories of finished goods and work in progress | 1,301 | (171) |
| Total Employee expenses | (3,063) | (4,149) |
| Expenses capitalised in intellectual property | 523 | 1,594 |
| Depreciation and amortisation | (511) | (576) |
| Borrowing costs | (264) | (141) |
| Other expenses from ordinary activities | (875) | (1,850) |
| Total expenses | (12,454) | (16,763) |
| Profit/(loss) from ordinary activities before related income tax expense | (2,762) | 176 |
| Income tax (expense)/benefit relating to ordinary activities | 49 | (13) |
| Net profit/(loss) | (2,713) | 163 |
| Total changes in equity | (2,713) | 163 |

EARNINGS PER SHARE

| | 2004 | 2003 |
|--|------------|------------|
| Basic earnings per share (cents) | (4.81) | 0.29 |
| Diluted earnings per share (cents) | n.a. | n.a. |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 56,369,466 | 56,369,466 |
| Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share | n.a. | n.a. |

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Statement of Financial Position as at 30 June 2004

| | 2004 | 2003 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| CURRENT ASSETS | | |
| Cash assets | 1,313 | 1,231 |
| Receivables | 2,861 | 5,247 |
| Inventories | 1,195 | 2,498 |
| Other | 20 | 83 |
| Total Current Assets | <u>5,389</u> | <u>9,059</u> |
| NON CURRENT ASSETS | | |
| Receivables | - | - |
| Investments accounted for using the equity method | 50 | 44 |
| Other Investments | - | - |
| Property, plant and equipment | 2,863 | 2,977 |
| Intangible assets | 5,656 | 5,372 |
| Total Non Current Assets | <u>8,569</u> | <u>8,393</u> |
| TOTAL ASSETS | <u>13,958</u> | <u>17,452</u> |
| CURRENT LIABILITIES | | |
| Payables | 3,940 | 5,375 |
| Interest-bearing liabilities | 748 | 919 |
| Provisions | 246 | 214 |
| Total Current Liabilities | <u>4,934</u> | <u>6,508</u> |
| NON CURRENT LIABILITIES | | |
| Interest-bearing liabilities | 1,533 | 1,495 |
| Provisions | 82 | 82 |
| Total Non Current Liabilities | <u>1,615</u> | <u>1,577</u> |
| TOTAL LIABILITIES | <u>6,549</u> | <u>8,085</u> |
| NET ASSETS | <u>7,409</u> | <u>9,367</u> |
| EQUITY | | |
| Contributed equity | 12,931 | 12,931 |
| Convertible notes | 760 | 10 |
| Reserves | (12) | (17) |
| Retained losses | (6,270) | (3,557) |
| TOTAL EQUITY | <u>7,409</u> | <u>9,367</u> |

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Statements of cash flows for the year ended 30 June 2004

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts in the course of operations | 13,797 | 14,713 |
| Cash payments in the course of operations | <u>(13,451)</u> | <u>(13,303)</u> |
| | 346 | 1,410 |
| Interest received | 3 | 36 |
| Borrowing costs paid | (245) | (141) |
| Income taxes paid | - | (5) |
| Net cash provided by/(used in) Operating Activities | <u>104</u> | <u>1,300</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment | (28) | (431) |
| Investment in research and development costs | (556) | (1,594) |
| Net Cash used in Investing Activities | <u>(584)</u> | <u>(2,025)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from loans | 625 | 926 |
| Repayment of lease and hire purchase liabilities | (63) | (93) |
| Loan to subsidiary | - | - |
| Net Cash provided by Financing Activities | <u>562</u> | <u>833</u> |
| Net Increase / (Decrease) in Cash Held | <u>82</u> | <u>108</u> |
| Cash at the Beginning of the Financial Period | 1,231 | 1,123 |
| Exchange rate adjustment on opening cash | - | - |
| Cash at the End of the Financial Period | <u>1,313</u> | <u>1,231</u> |

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| 2004 | 2003 |
|--------|--------|
| \$'000 | \$'000 |

1. Basis of Preparation

This preliminary final report has been prepared in accordance with ASX listing Rule 4.3A and the disclosure requirements of the ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2003 annual report.

2. EXPENSES AND LOSSES/(GAINS)

Depreciation and amortisation

Depreciation relates to

| | | |
|-------------------------------|------------|------------|
| Leased Assets | 23 | 18 |
| Property, Plant and Equipment | 218 | 285 |
| Total depreciation | 241 | 303 |

| | | |
|---------------------------------------|------------|------------|
| Amortisation of intellectual property | 270 | 273 |
| Total amortisation | 270 | 273 |

| | | |
|--|------------|------------|
| Total depreciation and amortisation | 511 | 576 |
|--|------------|------------|

Borrowing costs

Interest and Borrowing Costs paid / payable

| | | |
|---------------|-----|-----|
| Other parties | 264 | 141 |
|---------------|-----|-----|

Operating lease expense

| | | |
|----------------|-----|-----|
| Lease payments | 127 | 204 |
|----------------|-----|-----|

Other charges

| | | |
|------------------|-----|------|
| Bad debt expense | 104 | (22) |
|------------------|-----|------|

Other Provisions :

| | | |
|-------------------------------------|-----|-----|
| Provision for Employee Entitlements | 118 | 273 |
|-------------------------------------|-----|-----|

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| | | | | |
|---|----------------|----------------|-------------|----------|
| | 2,004 | 2,003 | | |
| | \$'000 | \$'000 | | |
| 3. RETAINED LOSSES | | | | |
| Balance at beginning of year | (3,557) | (3,720) | | |
| Net profit/(loss) attributable to members | (2,713) | 163 | | |
| | <u>(6,270)</u> | <u>(3,557)</u> | | |
| 4. NET TANGIBLE ASSET BACKING | 2004 | 2003 | | |
| Net tangible asset backing per ordinary share (cents) | <u>3.1</u> | <u>7.1</u> | | |
| 5. ASSOCIATED COMPANY INFORMATION | | | | |
| | 2004 | 2003 | 2004 | 2003 |
| Associated entity | \$'000 | \$'000 | % | % |
| Pulse Power Technologies PVT Ltd India Ordinary | 50 | 44 | 26 | 26 |
| Share of post acquisition retained profits attributable to associate | | | | |
| | 2004 | 2003 | | |
| | \$'000 | \$'000 | | |
| Share of net profit/(losses) accounted for using the equity method included in the statement of financial performance | <u>7</u> | <u>6</u> | | |
| Share of associate net profit/(losses) accounted for using the equity method | <u>7</u> | <u>6</u> | | |
| Movements in carrying amount of investments | | | | |
| Investment in associate acquired during the year | | 44 | 42 | |
| Share of associate's net profit/(loss) | | 7 | 6 | |
| Adjustment to carrying value due to foreign exchange rate variation | | (1) | (4) | |
| Carrying amount of investment in associate | | <u>50</u> | <u>44</u> | |
| | 2,004 | 2,003 | | |
| | \$'000 | \$'000 | | |
| 6. EARNINGS PER SHARE | | | | |
| Basic earnings per share (cents) | | (4.81) | 0.29 | |
| Diluted earnings per share (cents) | | n.a. | n.a. | |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | | 56,369,466 | 56,369,466 | |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | | <u>n.a.</u> | <u>n.a.</u> | |

Advanced Energy Systems Limited and its Controlled Entities

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7. SEGMENT REPORTING

The Economic entity operates predominately in two industries,
Projects and Products and Research and Development

| | Projects & Products | | Research & Development | | Consolidated | |
|--|---------------------|----------------|------------------------|----------------|----------------|----------------|
| | 2004 \$'000 | 2003 \$'000 | 2004 \$'000 | 2003 \$'000 | 2004 \$'000 | 2003 \$'000 |
| Revenue | | | | | | |
| External segment revenue | 9,658 | 16,547 | - | 325 | 9,658 | 16,872 |
| Share of net profit or loss of equity accounted investment | 12 | 6 | | | 12 | 6 |
| Total Segment Revenue | 9,670 | 16,553 | - | 325 | 9,670 | 16,878 |
| Unallocated Revenue | | | | | 22 | 61 |
| Total Revenue | | | | | 9,692 | 16,939 |
| Result | | | | | | |
| Segment result | (2,444) | 38 | (318) | 138 | (2,762) | 176 |
| Unallocated expenses net of unallocated revenue | | | | | - | - |
| Profit from ordinary activities before income tax expense | | | | | (2,762) | 176 |
| Income tax (expense)/benefit | | | | | 49 | (13) |
| Profit from ordinary activities after income tax expense | | | | | (2,713) | 163 |
| Assets | | | | | | |
| Segment assets | 5,879 | 7,210 | 5,656 | 5,202 | 11,535 | 12,412 |
| Equity accounted investments | 50 | 44 | | | 50 | 44 |
| Unallocated Corporate assets | | | | | 2,373 | 4,996 |
| Consolidated total assets | | | | | 13,958 | 17,452 |
| Liabilities | | | | | | |
| Segment liabilities | 5,110 | 3,891 | - | 1 | 5,110 | 3,892 |
| Unallocated corporate liabilities | | | | | 1,440 | 4,193 |
| Consolidated total liabilities | | | | | 6,550 | 8,085 |
| Acquisition of non-current assets | | | | | | |
| Segment non-current assets | 192 | 175 | 523 | 1,594 | 715 | 1,769 |
| Unallocated non-current assets | | | | | - | 256 |
| Consolidated acquisition of non-current liabilities | | | | | 715 | 2,025 |

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7. SEGMENT REPORTING (continued)

Secondary Reporting Geographical Segments

| | Segment Revenues from External Customers | | Carrying Amount of Segment Assets | | Acquisitions of Non - current segment Assets | |
|-------------------------------|--|---------------|---|---------------|--|--------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Geographical location: | | | | | | |
| Australia | 5,601 | 11,165 | 11,184 | 16,030 | 715 | 2,025 |
| India | 3,684 | 1,605 | 2,719 | 1,267 | | |
| United States of America | 407 | 4,169 | 55 | 155 | | |
| | <u>9,692</u> | <u>16,939</u> | <u>13,958</u> | <u>17,452</u> | <u>715</u> | <u>2,025</u> |

8. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards. (IFRS)

Australian equivalents to International Financial Reporting Standards (AIFRS) will be adopted in the financial report for the year ending 30 June 2006 and the comparative information presented in that report for the year ending 30 June 2005. In preparation for the transition, opening balances as at 1 July 2004 for the comparative year ending 30 June 2005 will be converted to AIFRS in accordance with new accounting standard AASB 1 "First Time Adoption of Australian International Reporting Pronouncements".

The transition to Australian equivalents of IFRS's is being managed by Mr B. Sims Company Secretary

Major changes identified to date that will be required to the Groups existing accounting policies include the following:

Inventories

Inventories will continue to be measured at the lower of cost and net realisable value.

Under the new AASB 102 all items of inventory are subject to an impairment test.

In the event that the circumstances that lead to an impairment write-down no longer exists or are favourable a reversal of the write-down through the statement of financial performance is required to be effected.

The entity currently uses the lower of cost and net realisable value method of valuation.

Property Plant and Equipment

Property, plant and equipment are subject to an impairment test when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant and equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expenses through the statement of financial performance.

Financial Instruments

The group has issued a number of convertible notes. The balance of \$760,000 convertible notes which is currently treated as equity, will be reclassified as debt.

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Audit Review and Status

| This report is based on accounts which one of the following applies: | | | |
|--|---|--|--|
| The accounts have been audited | | The accounts have been subject to review | |
| The accounts are in the process of being audited | X | The accounts have not been audited | |