

Annual Financial Report for the Financial Year Ended 30 June 2003

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Concept Systems International Limited
ACN 000 737 744

The board of directors (hereinafter referred to as 'the board') are responsible for the corporate governance practices of the company and its controlled entities. Good corporate governance is about the fundamental issues of trust and credibility, and to this end the directors are required to act honestly, transparently, diligently, independently and in the best interests of all shareholders.

In March 2003, the Australian Stock Exchange Corporate Governance Council issued new guidelines that become effective this year. The guidelines provide a framework for good governance and include core principles and some specific recommendations. From next year, the company is obliged to explain if and why it does not comply with any of the recommendations.

The company already complies with many of the proposed recommendations. There are some recommendations which the directors do not believe are appropriate for Concept and these are noted below. The company will take necessary steps to comply with other recommendations over the course of this year. These are also noted below.

The major processes by which the directors of the company meet their duties are described in this corporate governance statement.

The Board of Directors

The board comprises two executive directors and four non-executive directors of whom one, the Honorable Brian Gibson, is independent. The Chairman is a non-executive director and the Managing Director and Finance Director are the two executive directors.

The qualifications, experience and expertise of the directors are set out on pages 17 and 18 of this annual report.

For a relatively small listed company a majority of independent directors, as recommended by the ASX Corporate Governance Guidelines, would inflate the board size unnecessarily. The board is benefiting from the experience and insight from new major shareholder and director, Mr Andrew Banks. Shareholders are to vote on the appointment of a new non-executive director, Mr Geoff Morgan, on 29 September 2003.

The board meets regularly, usually once every six weeks, and directors are expected to attend. Directors are provided reading material in advance of these meetings and directors are expected to adequately prepare and participate.

The most significant responsibilities of the board are to:

- > report to shareholders and the market;
- > ensure regulatory compliance;
- > review internal controls and external audit reports;
- > monitor and influence the culture, reputation and ethical standards of the company;
- > monitor the board composition, director selection and board processes and performance;
- > approve key executive appointments;
- > review the performance of the Managing Director, Finance Director and executive management;
- > review and approve executive remuneration;
- > ensure the board has an in-depth understanding of each substantial segment of the company;
- > validate and approve corporate strategy;
- > review the assumptions and rationale of annual budgets and approve such budgets;
- > review business results and monitor corrective action where applicable; and
- > authorise and monitor major investments and strategic commitments.

Directors may enter into an arrangement with the company. Directors or their firms may act in a professional capacity for the company. These arrangements are subject to the restrictions of the Corporations Act 2001.

Independent Professional Advice

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Audit Committee

The Audit Committee currently consists of two non-executive directors and its role is documented in a charter, which has been approved by the board. The Audit Committee is chaired by the independent director, the Honorable Brian Gibson, and includes the company chairman Ms Mary Beth Bauer who is a qualified chartered accountant. For the size of company and its board, the directors consider a two-person Audit Committee as being appropriate rather than the three recommended by the ASX Corporate Governance Guidelines.

The Audit Committee charter defines the purpose, authority and responsibility of the committee. The charter has been recently reviewed and enhanced. The audit committee has regard to best practice, including the Ramsay Report on Audit Independence in Australia. The committee reviews:

- > the annual and half-year financial report prior to their approval by the board;
- > the effectiveness of management information systems and systems of internal control; and
- > the efficiency and effectiveness of the external audit function, including reviewing the audit plan.

Remuneration Committee

The board has appointed a Remuneration Committee consisting of two non-executive directors. The Remuneration Committee is chaired by a non-executive director, Mr Andrew Banks.

The committee reviews the remuneration policies applicable to all directors and executive officers on an annual basis and decides on remuneration packages and terms of employment. Remuneration packages, which consist of base salary, fringe benefits, incentive schemes (including performance-related bonuses and share options), superannuation and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the board seeks the advice of external advisers in connection with the structure of remuneration packages.

Particulars concerning directors' and executives' remuneration and the company's directors' and employee share option plan are set out in notes 5, 6 and 7 to the financial statements.

Nomination Committee

The company does not have a Nomination Committee. The board expects to review this situation over the course of the next year, together with a review of the board composition.

A process of formal board evaluation, together with formal evaluation of the executive directors, will be implemented in the coming year.

Risk Management

The board is responsible for the company's system of internal controls. The board constantly monitors the operational and financial aspects of the company's activities and considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified.

Communication with Shareholders

The board's policy is that shareholders are informed of all major developments that impact on the company consistent with continuous disclosure obligations of the company pursuant to the Australian Stock Exchange Listing Rules.

Information is communicated to shareholders through:

- > annual and half-yearly financial reports;
- > notices and explanatory memoranda of annual general meetings and extraordinary general meetings;
- > announcements posted through the Australian Stock Exchange website; and
- > the company's website on the internet: www.concept-intl.com

The company is currently developing a formal disclosure policy.

Code of Conduct

As part of the board's commitment to the highest standard of conduct, the company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- > responsibilities to shareholders;
- > compliance with laws and regulations;
- > relations with customers and suppliers;
- > ethical responsibilities;
- > employment practices; and
- > responsibilities to the environment and the community.

The directors of Concept Systems International Limited ('Concept') present the annual financial report on the company and its controlled entities for the financial year ended 30 June 2003.

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

Ms Mary-Beth Bauer

Chairman Mary-Beth Bauer joined the Concept board in December 2001 and was elected Chairman of the board in August 2002. Mary-Beth has established a national reputation within Australia's corporate and financial sectors, building on her 19 years' experience in investor relations, chartered accounting and corporate finance. Mary-Beth is the Managing Director of Value Enhancement Management, a Melbourne-based consulting firm.

Mary-Beth is at the forefront of investor relations in Australia, and has worked across a variety of major companies. She was the Investor Relations Manager for Coles Myer and prior to that she was Investor Relations Manager at Mayne Nickless.

Mary-Beth has a Business Economics degree from the University of California, is an Australian chartered accountant, a US certified public accountant and a fellow of the Australian Institute of Company Directors.

Mr Greg Phillips

Deputy Chairman Greg Phillips founded Concept in 1985, prior to its acquisition by Arcadia Minerals NL in December 1999, having worked for many years in human resources and line management. Until November 2002, he held the position of Managing Director of Concept, responsible for all areas of the business and its strategy, including product development and implementation, sales, marketing, finance and compliance.

Greg holds a Bachelor of Arts (Psychology) and a Master of Business Administration.

The Honorable Brian Gibson AM

Non-Executive Director Brian Gibson joined the Concept board in June 2002. Brian was a Liberal Senator for Tasmania from 1993 until February 2002. In 1996, he was Parliamentary Secretary to the Treasurer and responsible for corporations law and the Australian Securities Commission. He was an active member of committees for corporations and securities, public accounts and reform of taxation.

Before entering Parliament, Mr Gibson was Managing Director of Australian Newsprint Mills Limited during the 1980s, Chairman of the Hydro-Electric Commission of Tasmania 1988-1992, Chairman of Uitas Consulting Limited and held several other directorships.

Mr Gibson has a Science in Forestry degree and an Arts degree (in mathematics and statistics) from the University of Melbourne. He is a graduate of Harvard Business School's senior international program.

Mr Andrew Banks

Non-Executive Director Andrew Banks joined the Concept board in September 2002. Andrew has been involved in recruitment services since early 1980 and has used his behavioural sciences background in assisting the boards and senior management of many organisations in maximising the performance of their people. This experience has included senior executive recruitment at general management and director level, through to setting up organisational structures, reviewing compensation plans, assisting in the evaluation and training of existing staff, and providing objective input from the marketplace on people-related issues.

He served as a public company director for Morgan and Banks Limited, a company listed on the Australian Stock Exchange, from the initial public offering in 1993 until the company was sold and de-listed in 1999.

Mr Banks' career has included international exposure to human resource management covering the catering, oil and construction industries in Australia, the United Kingdom, Norway and the United States.

Mr Mark Brayan

Managing Director Mark Brayan joined Concept in December 2002 as Managing Director. Mark is responsible for the overall leadership of the company and its people, to ensure that Concept continues to deliver innovative and high-value solutions to its clients, while managing margins and exploring new revenue opportunities in order to position and maintain Concept as a market leader.

Mark has a wealth of management experience in software solution companies, and a track record of improving the effectiveness of organisations to grow revenue and market share. He has held senior sales, marketing and consulting roles in leading companies in Australia, the USA, Europe and Middle East, including BMC Software, Business Engine Software and Intergraph Corporation.

Mark has an MBA from the Australian Graduate School of Management and a Bachelor of Surveying (with First Class Honours) from the University of New South Wales.

Mr Michael Bermeister

Finance Director and Company Secretary Michael Bermeister joined Concept in February 2001 and is the Finance Director and Company Secretary. Prior to Concept, Michael held executive positions in computer software companies over the past 19 years including Oracle Asia Pacific, Sybase Australia and, most recently, TenFold UK. Michael holds Accounting and Commerce degrees and is a member of both the South African and Australian Institutes of Chartered Accountants.

Principal Activities

The principal activities of the group during the financial year were the development, sale and support of people management software.

Review of Operations

During the year, Concept has achieved excellent results, improving its revenues and winning significant new customers and contracts. Previous year comparisons have been adjusted to reflect the financial impact of the sale of Concept's training business activities (discontinuing operations) in August 2001.

For the financial year ended 30 June 2003, the group sales revenues increased to \$16,731,835 from the previous year's \$16,169,360 on a proforma continuing operations basis (decrease from \$18,777,923 to \$16,752,328 on an actuals basis including the profit on sale in the prior year of Concept Training Institute Pty Ltd). Revenue for the second half of the financial year was \$8,882,888 up 12.9% from \$7,869,440 for the first half, and up 2.7% from \$8,648,462 in the corresponding period in the previous year.

The Concept group reports financial year losses before interest and income tax of \$1,618,989 as compared to losses of \$9,656,919 the previous year. After-tax losses of \$1,828,195 represent an improvement against after tax losses of \$8,692,573 the previous year.

Cash on hand at 30 June 2003 totalled \$1,244,778 compared to \$1,701,108 at 30 June 2002.

Convertible note debt decreased to \$1,250,000 compared to \$2,508,443 the previous year.

Changes in the State of Affairs

During the previous financial year, the significant change in the state of affairs of the economic entity referred to in the financial statements or notes thereto was the sale of the controlled entity Concept Training Institute Pty Ltd in August 2001 for \$5.0 million.

Subsequent Events

In July 2003, Concept issued 41,666,666 ordinary shares to Morgan and Banks Investments Pty Ltd (MBI) pursuant to the convertible notes facility between Concept and MBI. This issue was in exchange for the \$1,250,000 convertible notes debts outstanding at that time. At the date of this report, the total convertible notes outstanding is nil.

In August 2003 and subject to Concept shareholder approval, Concept agreed to acquire mb2, a company associated with MBI. The agreed consideration for this acquisition is to be the issue of 193,333,333 fully paid ordinary shares in Concept valued at \$9,250,000.

The effect of these two events is to increase Concept's total fully paid ordinary shares to 453,941,533 from 218,941,534 at 30 June 2003.

Future Developments

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

Dividends

In respect of the financial year ended 30 June 2002, as detailed in the directors' report for that financial year, no final dividends were paid.

In respect of the financial year ended 30 June 2003, no interim dividend was declared or paid, and no final dividend is recommended.

Share Options

Share Options Granted to Directors and Executives

During the financial year, share options were granted to the following directors and executives of the company:

Directors and Executives	Number of Options Granted during Year	Number of Ordinary Shares Under Option ⁽ⁱ⁾
Ms Mary-Beth Bauer (Chairman)	2,000,000 (exercisable at \$0.045 each dependant upon the company achieving minimum financial profitability per year). 400,000 expired in June 2003.	1,600,000
Mr Greg Phillips (Deputy Chairman)	10,000,000 (exercisable at \$0.045 each dependant upon the company achieving minimum financial profitability per year). 7,400,000 were cancelled in December 2002 and 1,000,000 expired in June 2003.	2,600,000
Mr Michael Bermeister (Finance Director and Company Secretary)	5,000,000 (exercisable at \$0.045 each dependant upon the company achieving minimum financial profitability per year). 1,000,000 expired in June 2003.	4,500,000
Mr Andrew Banks (Non-Executive Director)	2,000,000 (exercisable at \$0.045 each dependant upon the company achieving minimum financial profitability per year). 400,000 expired in June 2003.	1,600,000
The Honorable Brian Gibson AM (Non-Executive Director)	2,000,000 (exercisable at \$0.045 each dependant upon the company achieving minimum financial profitability per year). 400,000 expired in June 2003.	1,600,000

⁽ⁱ⁾ At 30 June 2003, 3,200,000 options expired due to failure by the group to achieve minimum financial profitability hurdles during the year. In the case of Mr Greg Phillips, 7,400,000 options were cancelled due to him ceasing to act as Managing Director of the group in November 2002.

Directors' and Employee Share Option Plan

In accordance with the provisions of the directors' and employee share option plan, as at the date of this report, directors, executives and employees are entitled to purchase an aggregate 5% of the issued ordinary shares of the company, the exercise price of which is fixed by directors. The holders of such options do not have the right, by virtue of the option, to participate in any share issue.

During the financial year, 21,000,000 options (last year: nil options) were issued in accordance with the provisions of the directors' and employee share option plan.

Further details of the directors' and employee share option plan are disclosed in note 7 to the financial statements.

Indemnification of Officers and Auditors

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

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

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 12 board meetings and four committee meetings were held. Committee meetings include remuneration and audit committees.

Board of Directors			Committee Meetings		
Directors	Held	Attended	Directors	Held	Attended
Mary-Beth Bauer	12	12	Mary-Beth Bauer	4	4
Greg Phillips	12	12	Greg Phillips	-	-
Michael Bermeister	12	11	Michael Bermeister	-	-
Brian Gibson	12	12	Brian Gibson	2	2
Andrew Banks	10	9	Andrew Banks	2	2
Mark Brayan	7	7	Mark Brayan	-	-

Directors' Shareholdings

The following table sets out each director's relevant interest in issued ordinary shares and registered schemes of the company or a related body corporate as at the date of this report.

Directors	Ordinary Shares held beneficially	Ordinary Shares held non-beneficially	Shares acquired as a result of Options exercised	Number of Options over Ordinary Shares
Mary-Beth Bauer	1,500,000	1,388,566	-	1,600,000
Greg Phillips	17,912,900	-	-	2,600,000
Michael Bermeister	-	1,666,666	-	4,500,000
Brian Gibson	-	1,019,575	-	1,600,000
Andrew Banks	-	83,333,332	-	1,600,000

Directors' and Executives' Remuneration

The Remuneration Committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the board. Remuneration packages are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the Remuneration Committee seeks the advice of external advisers in connection with the structure of remuneration packages.

Annual remuneration packages contain the following key elements:

- > salary/fees;
- > benefits – including the provision of motor vehicle, superannuation and health benefits; and
- > incentive schemes – including performance-related bonuses and share options under the directors' and employee share option plan as disclosed in note 7 to the financial statements.

The following table discloses the annual remuneration packages of the directors of the company:

Name	Annual Salary/Fees	Benefits	Incentive Schemes	Total
Executive Directors				
Mark Brayan	\$239,000	\$11,000	\$159,000	\$409,000
Greg Phillips ⁽ⁱ⁾	\$100,000	-	\$1,159	\$101,159
Michael Bermeister	\$180,000	\$11,000	\$61,518	\$252,518
Non-Executive Directors				
Mary-Beth Bauer	\$76,300	-	\$1,159	\$77,459
Brian Gibson	\$45,000	\$4,050	\$1,159	\$50,209
Andrew Banks (appointed September 2002)	\$45,000	\$4,050	\$1,159	\$50,209

(i) From 1 July 2003, Greg Phillips' annual salary changed from \$428,000 to \$100,000 per annum in line with his changed responsibilities.

The following table discloses the remuneration paid to the executive managers of the company and the economic entity:

Name	Salary/Fees	Benefits	Incentive Schemes	Total
Economic Entity				
Mark Brayan – Managing Director	143,688	6,312	-	150,000
Greg Phillips – (Managing Director until November 2002)	428,004	-	1,159	429,163
Michael Bermeister – Finance Director	180,000	10,660	2,898	193,558
Mike Conway – Manager Technology Services	160,727	45,608	-	206,335
Robert Aitken-Fox – Product Services	189,500	17,055	-	206,555
Eileen Aitken – Manager Client Services	170,680	10,520	-	181,200

Directors and executive remuneration incentive schemes include an annualised value attributed to the options granted. The Black Scholles Model has been used to calculate option values for information purposes. The Black Scholles Model suggests a valuation of 0.29 cents per option per annum.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or 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 any part of those proceedings.

The company was not a party to any such proceedings during the year.

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

On behalf of the directors,



Mary-Beth Bauer

Chairman

Melbourne 26 September 2003

Independent Audit Report to the Members of Concept Systems International Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Concept Systems International Limited (the company) and the consolidated entity, for the year ended 30 June 2003. 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 judgment, 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.

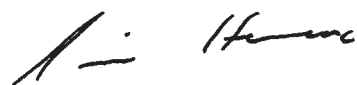
Audit Opinion

In our opinion, the financial report of Concept Systems International 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 2003 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 Australian.

GRANT THORNTON

Chartered Accountants



S Hancox

Partner

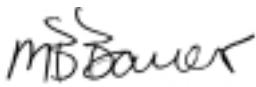
Brisbane 26 September 2003

The directors declare that:

- a) the attached financial statements and notes thereto comply with accounting standards;
- b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the economic entity;
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- d) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors,



Mary-Beth Bauer

Chairman

Melbourne 26 September 2003

Statement of Financial Performance

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	Economic Entity			
	Continuing Operations		Discontinuing Operations	
	2003	2002	2003	2002
	\$	\$	\$	\$
Sales revenue (sales of goods)	16,731,835	16,169,360	-	1,354,975
Cost of sales	7,525,936	7,570,897	-	1,104,611
- Correction of fundamental error	-	302,668	-	-
Gross Profit	9,205,899	8,295,795	-	250,364
Other revenue from ordinary activities	20,493	17,680	-	350
Divestment of training business activities	-	-	-	5,000,000
<u>Less:</u>				
Sales and marketing expenses	2,342,278	2,349,282	-	223,393
Occupancy expenses	1,091,877	992,243	-	324,784
Administration expenses	2,898,440	3,156,474	-	238,179
Borrowing costs	211,026	382,216	-	-
Amortisation of intangible assets	431,160	2,121,411	-	81,225
- Correction of fundamental error	-	98,633	-	-
Diminution of intangible assets	-	9,799,258	-	-
Cost of training business divestment	-	-	-	3,764,442
Research and development expenses	4,061,133	-	-	-
(Loss)/Profit From Ordinary Activities Before Income Tax	(1,809,522)	(10,586,042)	-	618,691
Income tax (expense)/benefit relating to ordinary activities	(18,673)	8,060	-	-
- Correction of fundamental error	-	1,266,718	-	-
(Loss)/Profit From Ordinary Activities After Related Income Tax	(1,828,195)	(9,311,264)	-	618,691
Net (Loss)/Profit and Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity	(1,828,195)	(9,311,264)	-	618,691

The accompanying Notes form part of these Financial Statements

	note	Economic Entity		Parent Entity	
		2003 \$	2002 \$	2003 \$	2002 \$
Sales revenue (sales of goods)	2	16,731,835	17,524,335	-	-
Cost of sales		7,525,936	8,675,508	-	-
- Correction of fundamental error	34(a)	-	302,668	-	-
Gross Profit		9,205,899	8,546,159	-	-
Other revenue from ordinary activities	2	20,493	18,030	291,820	496,552
Divestment of training business activities	3	-	5,000,000	-	5,000,000
<u>Less:</u>					
Sales and marketing expenses		2,342,278	2,572,675	48,800	34,257
Occupancy expenses		1,091,877	1,317,027	-	-
Administration expenses		2,898,440	3,394,653	35,407	28,743
Borrowing costs		211,026	382,216	158,859	361,805
Amortisation of intangible assets		431,160	2,202,636	-	-
- Correction of fundamental error	34(b)	-	98,633	-	-
Diminution of intangible assets		-	9,799,258	-	-
Cost of training business divestment		-	3,764,442	-	4,363,872
Research and development expenses		4,061,133	-	-	-
(Loss)/Profit From Ordinary Activities Before Income Tax		(1,809,522)	(9,967,351)	48,754	707,875
Income tax (expense)/benefit relating to ordinary activities	4	(18,673)	8,060	(14,626)	(162,680)
- Correction of fundamental error	34(b)	-	1,266,718	-	-
(Loss)/Profit From Ordinary Activities After Related Income Tax		(1,828,195)	(8,692,573)	34,128	545,195
Net (Loss)/Profit and Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity		(1,828,195)	(8,692,573)	34,128	545,195
Earnings Per Share					
- Basic (cents per share)	23	(0.009)	(0.071)		
- Diluted (cents per share)	23	(0.009)	(0.071)		

The accompanying Notes form part of these Financial Statements

Statement of Financial Position

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	note	Economic Entity		Parent Entity	
		2003	2002	2003	2002
		\$	\$	\$	\$
Current Assets					
Cash assets		1,244,778	1,701,108	1,145	1,824
Receivables	9	2,588,932	2,619,188	2,107,648	1,019,767
Other	10	1,029,037	687,269	281,792	163,078
Total Current Assets		4,862,747	5,007,565	2,390,585	1,184,669
Non-Current Assets					
Investments	11	-	-	10,100,000	10,100,000
Plant and equipment	12	829,520	780,341	-	-
Intangible assets	13	5,314,003	5,745,163	-	-
Total Non-Current Assets		6,143,523	6,525,504	10,100,000	10,100,000
Total Assets		11,006,270	11,533,069	12,490,585	11,284,669
Current Liabilities					
Payables	15	6,028,300	6,121,518	107,069	15,306
Interest-bearing liabilities	16	1,329,513	2,521,729	1,250,000	2,508,443
Provisions	17	1,015,117	935,201	-	-
Total Current Liabilities		8,372,930	9,578,448	1,357,069	2,523,749
Non-Current Liabilities					
Interest-bearing liabilities	18	168,446	-	-	-
Total Non-Current Liabilities		168,446	-	-	-
Total Liabilities		8,541,376	9,578,448	1,357,069	2,523,749
Net Assets		2,464,894	1,954,621	11,133,516	8,760,920
Equity					
Contributed equity	20	30,624,308	28,285,840	30,624,308	28,285,840
Reserves	21	105,387	105,387	105,387	105,387
Accumulated losses	22	(28,264,801)	(26,436,606)	(19,596,179)	(19,630,307)
Total Equity		2,464,894	1,954,621	11,133,516	8,760,920

The accompanying Notes form part of these Financial Statements

	note	Economic Entity		Parent Entity	
		Inflows (Outflows)		Inflows (Outflows)	
		2003	2002	2003	2002
		\$	\$	\$	\$
Cash Flows From Operating Activities					
Receipts from customers		17,790,786	20,759,185	317,825	487,788
Payments to suppliers and employees		(18,648,278)	(17,646,707)	(47,329)	(398,976)
Interest received		20,493	18,030	2,888	8,026
Interest and other costs of finance paid		(235,126)	(382,462)	(182,959)	(364,611)
Income tax paid		(18,673)	-	-	-
Net cash (used in)/provided by operating activities	32(e)	(1,090,798)	2,748,046	90,425	(267,773)
Cash Flows From Investing Activities					
Payment for plant and equipment		(445,557)	(528,701)	-	-
Software and research and development costs paid		-	(1,682,954)	-	-
Proceeds from net sale of businesses	32(c)	-	4,424,001	-	4,424,001
Payment for net business assets acquired	32(b)	-	(430,601)	-	-
Net cash (used in)/provided by investing activities		(445,557)	1,781,745	-	4,424,001
Cash Flows From Financing Activities					
Proceeds from issues of equity securities		2,338,468	-	2,338,468	-
Loans to related entities		-	-	(1,171,129)	(941,601)
Proceeds from borrowings		1,250,000	-	1,250,000	-
Repayment of borrowings		(2,508,443)	(3,220,048)	(2,508,443)	(3,223,648)
Net cash provided by/(used in) financing activities		1,080,025	(3,220,048)	(91,104)	(4,165,249)
Net (Decrease)/Increase In Cash Held		(456,330)	1,309,743	(679)	(9,021)
Cash At The Beginning Of The Financial Year		1,701,108	391,365	1,824	10,845
Cash At The End Of The Financial Year	32(a)	1,244,778	1,701,108	1,145	1,824

	Economic Entity			
	Continuing Operations		Discontinuing Operations	
	2003	2002	2003	2002
	\$	\$	\$	\$
Cash Flows From Operating Activities	(1,090,798)	2,873,712	-	(125,666)
Cash Flows From Investing Activities	(445,557)	(2,531,794)	-	4,313,539
Cash Flows From Financing Activities	1,080,025	1,127,584	-	(4,347,632)
Net (Decrease)/Increase In Cash Held	(456,330)	1,469,502	-	(159,759)
Cash At The Beginning Of The Financial Year	1,701,108	231,606	-	159,759
Cash At The End Of The Financial Year	1,244,778	1,701,108	-	-

The accompanying Notes form part of these Financial Statements

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1. Summary of Accounting Policies

Financial Reporting Framework

The financial report is a general-purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Concept Systems International Limited and controlled entities, and Concept Systems International Limited as an individual parent entity. Concept Systems International Limited is a listed company, incorporated and domiciled in Australia.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

(a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the economic entity, being the company (the parent entity) and its controlled entities as defined in accounting standard AASB 1024 "Consolidated Accounts". A list of controlled entities appears in note 28 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the economic entity are eliminated in full.

(b) Income Tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

(c) Capital Gains Tax

No provision has been made for capital gains tax, which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

(d) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(e) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life; whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation:

> leasehold improvements	3–6 years
> plant and equipment	2.5–11 years
> equipment under finance lease	3–5 years
> software	3–10 years

1. Summary of Accounting Policies (cont'd)

(f) Leased Assets

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(g) Investments

Investments in controlled entities are recorded at fair value based on the net tangible assets of each controlled entity. Other investments are recorded at cost.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

(h) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(i) Research and Development Costs

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred research and development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial production of the product.

The unamortised balance of research and development costs deferred in the previous period is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written off as an expense in the profit and loss statement.

(j) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight-line basis over a period of no greater than 20 years.

(k) Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(l) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the profit and loss statement in the period in which they arise except that:

- i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- ii. exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

1. Summary of Accounting Policies (cont'd)

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are transferred on consolidation to the foreign currency translation reserve.

Financial statements of self-sustaining, foreign-controlled entities are translated at reporting date using the current rate method and exchange differences are taken directly to the foreign currency translation reserve.

(m) Accounts Payable

Trade payables and other accounts payable are recognised when the economic entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Borrowings

Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

(o) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave sick leave, and other employee entitlements expected to be settled within 12 months are measured at their nominal values.

Provisions made in respect of other employee entitlements, which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date.

(p) Revenue Recognition

Licence Sales and Disposal of Assets

Revenue from the licence sales and disposal of other assets is recognised when the economic entity has passed control of the goods or other assets to the buyer.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Where services relate to maintenance of software, revenue is recognised over the maintenance period. Unexpired revenue is recorded as unearned income.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Contributions of Assets

Revenue arising from the contribution of assets is recognised when the economic entity gains control of the contribution or the right to receive the contribution.

Liabilities Forgiven

The gross amount of a liability forgiven by a credit provider is recognised as revenue.

(q) Goods and Services Tax

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

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

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

1. Summary of Accounting Policies (cont'd)

(r) Financial Instruments

Transaction Costs on the Issue of Equity

Transaction costs on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity to which the costs relate. These transaction costs are the costs that are incurred directly in connection with the issue of equity and which would not have been incurred had the equity not been issued.

Interest

Interest is classified as an expense.

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

2. Profit/(Loss) from Ordinary Activities

The operating profit/(loss) before income tax includes the following items of revenue and expense:

Operating Revenue

Sale of:

Software licenses and consulting services	16,731,835	16,393,068	-	-
Training courses	-	1,131,267	-	-
	16,731,835	17,524,335	-	-

Interest Revenue

Other entities	20,493	18,030	2,888	8,026
	16,752,328	17,542,365	2,888	8,026

Non-Operating Revenue

Proceeds from the sale of training business	-	5,000,000	-	5,000,000
Other	-	-	288,932	488,526
	-	5,000,000	288,932	5,488,526

Total Revenue	16,752,328	22,542,365	291,820	5,496,552
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Operating Expenses

Cost of sales	7,525,936	8,675,508	-	-
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Borrowing costs

Interest	185,243	325,481	158,859	308,091
Other fees	-	53,754	-	53,714
Finance lease finance charges	25,783	2,981	-	-
	211,026	382,216	158,859	361,805

Net provision for doubtful debts in respect of amounts receivable from other entities

	195,189	(2,988,698)	-	-
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	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
2. Profit/(Loss) from Ordinary Activities (cont'd)				
Net Transfer to/(from) Provisions				
Employee entitlements	79,916	(89,064)	-	-
Depreciation of Non-Current Assets				
Plant and equipment	330,646	187,994	-	-
Amortisation of Non-Current Assets				
Goodwill	431,160	787,370	-	-
Software	-	41,605	-	-
Research and development costs	-	1,373,661	-	-
	431,160	2,202,636	-	-
Lease assets	41,059	30,870	-	-
	472,219	2,233,506	-	-
Diminution of Intangible Assets				
Diminution of goodwill	-	7,200,000	-	-
Diminution of research and development	-	2,599,258	-	-
	-	9,799,258	-	-
Following the restructure of the group's administrative operations, the group has re-assessed its space requirements and made a \$400,000 provision for surplus leased space in accordance with UIG Abstract 1 Lessee Accounting for Surplus Leased Space Under a Non-Cancellable Operating Lease.				
Operating Lease Rental Expenses				
Provision for surplus leased space	400,000	-	-	-
Minimum lease payments	666,985	241,386	-	-
	1,066,985	241,386	-	-
Net Foreign Exchange Loss	242,786	62,446	-	-

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

3. Discontinuing Operations

On 30 August 2001, the economic entity disposed of its training division and thereby discontinued its operations in this business segment.

Financial information relating to the division is included in the statement of financial performance and statement of cash flows. The carrying amounts of assets and liabilities of the training division at the sale date were:

Total assets	-	5,440,143	-	-
Total liabilities	-	2,033,207	-	-
	-	3,406,936	-	-

Details of the sale of the division, which have been incorporated into the current year's result, are as follows:

Net sale price	-	4,642,494	-	-
Carrying amount of assets sold	-	3,406,936	-	-
Profit on sale before income tax	-	1,235,558	-	-
Income tax expense	-	-	-	-
Profit on sale after income tax	-	1,235,558	-	-

4. Income Tax

(a) The prima facie income tax expense on pre-tax accounting (loss)/profit reconciles to the income tax expense in the financial statements as follows:

Operating (Loss)/Profit	(1,809,522)	(9,967,351)	48,754	707,875
Income tax expense calculated at 30% of operating (loss)/profit	(542,857)	(2,990,205)	14,626	212,362

Permanent Differences

Amortisation of intangible assets	129,348	2,425,801	-	-
Non-assessable income/Non-deductible expenses	-	-	-	49,682
Research and development	(188,132)	(127,018)	-	-
Future income tax benefit written off/(brought to account)	-	(1,266,718)	-	-
Tax losses not brought to account as future income tax benefits	620,314	683,362	-	-
	561,530	1,715,427	-	49,682
Income tax expense/(benefit) attributable to operating profits	18,673	(1,274,778)	14,626	162,680

(b) Future income tax benefits not brought to account as assets:

Tax losses – revenue	3,087,874	2,519,955	-	-
Timing differences	581,220	454,582	-	-
	3,669,094	2,974,537	-	-

The taxation benefits of tax losses and timing differences not brought to accounts will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Economic Entity		Parent Entity	
2003	2002	2003	2002
\$	\$	\$	\$

5. Directors' Remuneration

The directors of the company during the year were:

- > Mary-Beth Bauer
- > Greg Phillips
- > Mark Brayan
- > Michael Bermeister
- > Brian Gibson
- > Andrew Banks

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party

865,634	689,670	865,634	689,670
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Amounts of a prescribed benefit given during the year by the parent entity or a related party to directors or a prescribed superannuation fund in connection with the retirement from a prescribed office:

Full particulars are not provided as the directors believe this would be unreasonable

26,654	21,414	26,654	21,414
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The number of directors of the company whose total income falls within each successive \$10,000 band of income (commencing at \$0):

	No.	No.
\$0 – \$9,999	1	1
\$40,000 – \$49,999	1	2
\$70,000 – \$79,999	1	1
\$150,000 – \$159,999	1	-
\$190,000 – \$199,999	1	-
\$420,000 – \$429,999	1	1

Economic Entity		Parent Entity	
2003	2002	2003	2002
\$	\$	\$	\$

6. Executives' Remuneration

Aggregate remuneration of executive officers of the company working mainly in Australia and receiving \$100,000 or more from the company or from any related party

772,771 616,706

Aggregate remuneration of executive officers of each entity in the economic entity working mainly in Australia and receiving \$100,000 or more from the entity for which they are executive officers or from any related party

1,453,497 1,111,629

The number of executive officers whose remuneration falls within each successive \$10,000 band of income (commencing at \$100,000):

	No.	No.	No.	No.
\$120,000 – \$129,999	1	-	-	-
\$140,000 – \$149,999	-	1	-	-
\$150,000 – \$159,999	1	-	1	-
\$170,000 – \$179,999	-	2	-	-
\$180,000 – \$189,999	1	1	-	1
\$190,000 – \$199,999	1	-	1	-
\$200,000 – \$209,999	2	-	-	-
\$420,000 – \$429,999	1	1	1	1

7. Directors' and Employee Share Option Plan

The company has an ownership-based remuneration scheme for directors, executives and employees. In accordance with the provisions of the scheme, as approved by shareholders at an annual general meeting, directors, executives and employees are offered Options to purchase ordinary shares at an issue price to be determined by the directors.

At 30 June 2003, directors, executives and employees had a total of 12,735,000 (2002: 2,390,000) options under the provisions of the scheme. Of these options, 2,335,000 are exercisable at \$0.30 each and expire no later than 2 March 2006. The remaining 10,400,000 options are exercisable at \$0.045 conditional upon minimum earnings per share hurdles being achieved over a further four-year period, as approved by shareholders on 20 September 2002.

	2003	2002
	No.	No.
Directors' and Employee Share Option Plan		
Balance at the beginning of the financial year ⁽ⁱ⁾	2,390,000	2,390,000
Granted during the financial year ⁽ⁱⁱ⁾	21,000,000	-
Exercised during the financial year	-	-
Expired or cancelled during the financial year ⁽ⁱⁱⁱ⁾	(10,655,000)	-
Balance at the end of the financial year ^(iv)	<u>12,735,000</u>	<u>2,390,000</u>

7. Directors' and Employee Share Option Plan

	No.	Grant Date	Expiry Date	Exercise Price
(i) Balance at the beginning of the financial year				
Options – Series				
Parcel C	1,890,000	28/03/00	01/03/05	\$0.30
Parcel I	500,000	02/03/01	02/03/06	\$0.30
	<u>2,390,000</u>			

Share options carry no rights to dividends and no voting rights.

(ii) Granted during the financial year

Options – Series				
Parcel J	4,200,000	20/09/02	30/06/04	\$0.045
	4,200,000	20/09/02	30/06/05	\$0.045
	4,200,000	20/09/02	30/06/06	\$0.045
	4,200,000	20/09/02	30/06/07	\$0.045
	4,200,000	20/09/02	30/06/08	\$0.045
	<u>21,000,00</u>			

Share options carry no right to dividends and no voting rights.

The options are exercisable conditional upon minimum earning per share hurdles being achieved over a five-year period as approved by shareholders on 20 September 2002.

	Exercise Price	2003 No.	2002 No.
(iii) Expired or cancelled during the financial year			
Options – Series			
Parcel C	\$0.30	55,000	-
Parcel J	\$0.045	10,600,000	-
		<u>10,655,000</u>	<u>-</u>

	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise Price
(iv) Balance at the end of the financial year						
Options – Series						
Parcel C	1,835,000	1,835,000	-	28/03/00	01/03/05	\$0.30
Parcel I	500,000	500,000	-	02/03/01	02/03/06	\$0.30
Parcel J	2,600,000	-	2,600,000	20/09/02	30/06/05	\$0.045
	2,600,000	-	2,600,000	20/09/02	30/06/06	\$0.045
	2,600,000	-	2,600,000	20/09/02	30/06/07	\$0.045
	2,600,000	-	2,600,000	20/09/02	30/06/08	\$0.045
	<u>12,735,000</u>	<u>2,335,000</u>	<u>10,400,000</u>			

Share options carry no rights to dividends and no voting rights

In accordance with the terms of the share option scheme, options may be exercised at any time from the date on which they vest to the date of their expiry.

Options issued under the Series Parcels C and I are fully vested.

Options issued under the Series Parcel J vest when the minimum earnings per share hurdles are achieved.

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from directors, executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year as disclosed in notes 5 and 6 to the financial statements.

The amounts are disclosed in remuneration in respect of the financial year in which the entitlement was earned.

Consideration received on the exercise of executive options is recognised in contributed equity. During the financial year no amount was recognised in contributed equity arising from the exercise of executive options.

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
8. Remuneration of Auditors				
(a) Auditor of the Company				
Auditing the financial report	38,871	27,333	-	-
Other services	791	750	-	8,742
	<u>39,662</u>	<u>28,083</u>	-	<u>8,742</u>
(b) Affiliated Auditor of Company				
Auditing the financial report	7,640	12,490	-	-
Other services	33,359	72,658	-	-
	<u>40,999</u>	<u>85,148</u>		
(c) Other Auditors				
Auditing the financial report	-	76,448	-	-
Other services	-	650	-	-
	<u>-</u>	<u>77,098</u>	<u>-</u>	<u>-</u>
	<u>80,661</u>	<u>190,329</u>	<u>-</u>	<u>8,742</u>
9. Current Receivables				
Trade receivables	3,070,582	2,905,649	-	83,249
Provision for doubtful debts	(481,650)	(286,461)	-	-
	<u>2,588,932</u>	<u>2,619,188</u>	<u>-</u>	<u>83,249</u>
Non-trade receivables from:				
Wholly owned controlled entities	-	-	15,107,648	13,936,518
Provision for doubtful debts	-	-	(13,000,000)	(13,000,000)
	<u>2,588,932</u>	<u>2,619,188</u>	<u>2,107,648</u>	<u>1,019,767</u>
10. Other Current Assets				
Prepayments	730,801	592,719	209,439	163,078
Other	298,236	94,550	72,353	-
	<u>1,029,037</u>	<u>687,269</u>	<u>281,792</u>	<u>163,078</u>
11. Non-Current Investments				
At cost:				
Shares	-	-	10,100,000	10,100,000
Shares in wholly owned subsidiaries				
Hepco Pty Ltd	-	-	10,100,000	10,100,000

	Economic Entity			Total
	Leasehold Improvements	Plant and Equipment	Equipment under finance lease	
	\$	\$	\$	\$
12. Plant and Equipment				
Gross Carrying Amount				
Balance at 30 June 2002	31,049	1,655,820	57,145	1,744,014
Additions	56,254	93,609	295,694	445,557
Disposals	(17,074)	(733,551)	(57,145)	(807,770)
Balance at 30 June 2003	70,229	1,015,878	295,694	1,381,801
Accumulated Depreciation/Amortisation				
Balance at 30 June 2002	(11,976)	(896,457)	(55,240)	(963,673)
Disposals	17,074	708,878	57,145	783,097
Depreciation expense	(25,570)	(305,076)	(41,059)	(371,705)
Balance at 30 June 2003	(20,472)	(492,655)	(39,154)	(552,281)
Net Book Value				
As at 30 June 2002	19,073	759,363	1,905	780,341
As at 30 June 2003	49,757	523,223	256,540	829,520

Economic Entity		Parent Entity	
2003	2002	2003	2002
\$	\$	\$	\$

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

Leasehold improvements, plant and equipment

371,705	218,865	-	-
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13. Intangible Assets

Goodwill	7,614,203	7,614,203	-	-
Accumulated amortisation	(2,300,200)	(1,869,040)	-	-
	5,314,003	5,745,163	-	-

Aggregate amortisation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year of patents, trademarks and licences.

431,160	787,370	-	-
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Correction of fundamental error (note 34(b))

-	98,633	-	-
431,160	886,003	-	-

14. Other Non-Current Assets

Research and development costs incurred during the year and deferred to future years before crediting any related grants.

Aggregate amortisation allocated, whether recognised as an expense or recognised as part of the carrying amount of other assets during the year of debt issue costs.

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
	-	1,693,574	-	-
	-	1,438,899	-	-

15. Current Payables

Trade payables	2,556,209	2,562,093	18,829	15,306
Unearned income	3,383,851	3,559,425	-	-
Other	88,240	-	88,240	-
	6,028,300	6,121,518	107,069	15,306

16. Current Interest-Bearing Liabilities

Secured

Debenture ⁽ⁱ⁾	-	2,508,443	-	2,508,443
Convertible note ⁽ⁱⁱ⁾	1,250,000	-	1,250,000	-
Finance lease liabilities ⁽ⁱⁱⁱ⁾ (note 27)	79,513	13,286	-	-
	1,329,513	2,521,729	1,250,000	2,508,443

⁽ⁱ⁾ Secured by floating charge over the company's assets.

⁽ⁱⁱ⁾ \$1,250,000 of convertible notes were issued in September 2002 to Morgan and Banks Investments Pty Ltd (MBI) a company associated with Andrew Banks. The notes can be converted into ordinary fully paid shares in the company, at MBI's discretion, at any time within 36 months of the date the notes were issued. The conversion price for each note is 3 cents, 6 cents or 9 cents, depending on whether the notes are converted within 12 months, 24 months or 36 months respectively.

⁽ⁱⁱⁱ⁾ Secured by the assets leased.

17. Current Provisions

Employee entitlements	1,015,117	935,201	-	-
Number of employees at the end of the financial year: 120 (2002: 101)				

18. Non-Current, Interest-Bearing Liabilities

Secured

Finance lease liabilities ⁽ⁱ⁾ (note 27)	168,446	-	-	-
⁽ⁱ⁾ Secured by the assets leased.				

19. Non-Hedged Foreign Currency Balances

The Australian dollar equivalent of foreign currency balances included in the financial statements which are not effectively hedged are as follows:

Hong Kong Dollars

Cash	6,442	528	-	-
Accounts receivable (Current)	5,326	8,725	-	-

Malaysian Ringgit

Cash	83,568	83,122	-	-
Accounts receivable (Current)	102,828	126,400	-	-

PNG Kina

Cash	125,483	314,733	-	-
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	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
20. Contributed Equity				
Issued Capital				
218,941,534 fully paid ordinary shares	30,624,308	28,285,840	30,624,308	28,285,840

Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share Options

Further details of the directors' and employee share option plan are contained in note 7 to the financial statements.

Share Capital Issued During the Financial Year

During the financial year the company issued 95,758,993 shares for 2,338,468 net of issue costs of 534,302. (2002: Nil)

21. Reserves

Reserves comprise:

Capital profits	105,387	105,387	105,387	105,387
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22. Accumulated Losses

Balance at the beginning of the financial year	(26,436,606)	(17,744,033)	(19,630,307)	(20,175,502)
Net (loss)/profit	(1,828,195)	(8,692,573)	34,128	545,195
Balance at the end of the financial year	(28,264,801)	(26,436,606)	(19,596,179)	(19,630,307)

23. Earnings Per Share

Basic earnings per share (cents)	(0.009)	(0.071)		
Diluted earnings per share (cents)	(0.009)	(0.071)		
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share	200,959,530	123,182,541		

24. Dividends

No dividends were paid or proposed during the financial year.

Adjusted franking accounts balance	-	-	-	-
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25. Commitments For Expenditure

(a) Capital expenditure commitments

No capital expenditure commitments at 30 June 2003.

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

26. Contingent Liabilities

The directors believe that there are no contingent liabilities at the reporting date.

Notes to the Financial Statements

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	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
27. Leases				
Finance lease liabilities				
No later than 1 year	112,763	13,477	-	-
Later than 1 year and not later than 2 years	109,729	-	-	-
Later than 2 years and not later than 5 years	82,820	-	-	-
Minimum finance lease payments	305,312	13,477	-	-
Less future finance charges	57,353	191	-	-
Finance lease liabilities	247,959	13,286	-	-
Included in the financial statements as:				
Current borrowings (note 16)	79,513	13,286	-	-
Non-current borrowings (note 18)	168,446	-	-	-
	247,959	13,286	-	-

These lease liabilities are secured over the relevant assets.

Non-cancellable operating leases

No later than 1 year	599,729	392,242	-	-
Later than 1 year and not later than 2 years	668,345	173,349	-	-
Later than 2 years and not later than 5 years	1,474,735	301,833	-	-
Longer than 5 years	101,748	6,240	-	-
	2,844,557	873,664	-	-

Operating leases have an average lease term of 3 years.

Assets which are the subject of operating leases include office equipment and office rental.

28. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2003 %	2002 %
Parent Entity			
Concept Systems International Limited	Australia		
Controlled Entities			
Hepco Pty Ltd	Australia	100	100
Concept Systems Australia Pty Ltd	Australia	100	100
Concept Strategic Management Pty Ltd	Australia	100	100
Concept International Limited	Hong Kong	100	100
Concept Systems Hong Kong Limited	Hong Kong	100	100
CMS Concept Systems Sdn Bhd	Malaysia	100	100
PT Konsep Manajemen ⁽ⁱ⁾	Indonesia	-	100

⁽ⁱ⁾ PT Konsep Manajemen, a dormant company registered in Indonesia has been deregistered.

29. Segment Information

Geographical	Revenue		Results		Assets	
	2003	2002	2003	2002	2003	2002
Australia	15,756,399	22,003,028	(1,629,642)	(8,323,694)	10,533,795	10,853,182
Asia	975,436	521,307	(198,553)	(368,879)	472,475	679,887
	16,731,835	22,524,335	(1,828,195)	(8,692,573)	11,006,270	11,533,069

Note: Technology sales and services is the only segment of the economic entity.

30. Related Party Disclosures

(a) Equity Interests in Related Parties

Equity Interests in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 28 to the financial statements.

(b) Directors' Remuneration and Retirement Benefits

Details of directors' remuneration are disclosed in note 5 to the financial statements.

(c) Directors' Equity Holdings

Ordinary shares

Issued during the financial year to directors and their director-related entities by:

Concept Systems International Limited

	Fully Paid	
	2003	2002
	No.	No.

	44,999,998	-
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Held as at the reporting date by directors and their director-related entities in:

Concept Systems International Limited

	66,983,873	40,281,000
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Share options

Issued during the financial year to directors and their director-related entities by:

Concept Systems International Limited

	Share Option	
	2003	2002
	No.	No.

	21,000,000	-
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Held as at the reporting date by directors and their director-related entities in:

Concept Systems International Limited

	11,900,000	1,500,000
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	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

(d) Other Transactions With Directors

The operating profit or loss before income tax includes the following items of revenue and expense that resulted from transactions with directors or their director-related entities:

Consulting services (support) revenue	(31,979)	(24,000)	-	-
Professional advice expensed	88,154	249,380	-	-
Interest on convertible notes	88,240	-	-	-

During the financial year, Concept Conversion Technologies Pty Ltd (an entity controlled by Mr Greg Phillips) purchased services including subletting premises from a wholly owned subsidiary totalling \$31,979 (2002: \$24,000). In addition, Concept Conversion Technologies Pty Ltd provided professional services to entities within the group totalling \$24,200 (2002: Nil).

During the previous financial year, Concept Conversion Technologies Pty Ltd (an entity controlled by Mr Greg Phillips) was paid \$110,738 in settlement of accrued employee entitlements.

30. Related Party Disclosures (cont'd)

During the financial year, Morgan and Banks Investments Pty Ltd (an entity associated with Andrew Banks) was paid \$88,240 (2002: nil) interest on convertible notes.

During the financial year, Value Enhancement Management Pty Ltd (an entity associated with Mary-Beth Bauer) provided professional services to entities within the group totaling \$63,954 (2002: \$7,500). These services were provided on commercial terms.

(e) Transactions Within the Wholly Owned Group

The wholly owned group includes:

- > the ultimate parent entity in the wholly owned group;
- > wholly owned controlled entities; and
- > other entities in the wholly owned group.

The ultimate parent entity in the wholly owned group is Concept Systems International Limited.

No dividend and interest revenue was derived by the parent entity from entities in the wholly owned group.

No interest expense, provisions for doubtful receivables and write-downs of receivables in respect of transactions with entities in the wholly owned group was incurred.

Amounts receivable from entities in the wholly owned group are disclosed in note 9.

During the financial year Concept Systems International Ltd provided accounting and administration services to entities in the wholly owned group and charged \$288,882 (2002: \$488,526) to Concept Systems Australia Pty Ltd for such services.

Other transactions that occurred during the financial year between entities in the wholly owned group were the advancement of interest free loans.

31. Subsequent Events

In July 2003, Concept issued 41,666,666 ordinary shares to Morgan and Banks Investments Pty Ltd (MBI) pursuant to the Convertible Notes Facility between Concept and MBI. This issue was in exchange for the \$1,250,000 convertible notes debts outstanding at that time. At the date of this report, the total convertible notes outstanding is nil.

In August 2003 and subject to Concept shareholder approval, Concept agreed to acquire mb2, a company associated with MBI. The agreed consideration for this acquisition is to be the issue of 193,333,333 fully paid ordinary shares in Concept valued at \$9,250,000.

The effect of these two events is to increase Concept's total fully paid ordinary shares to 453,941,533 from 218,941,534 at 30 June 2003.

Economic Entity		Parent Entity	
2003	2002	2003	2002
\$	\$	\$	\$

32. Notes To The Statement Of Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash	1,244,778	1,701,108	1,145	1,824
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(b) Businesses Acquired

During the 2001 financial year, one business was acquired.

Details of the acquisition are as follows:

Consideration

Cash	-	414,000	-	-
Accrued acquisition costs	-	16,601	-	-
Net cash outflow on acquisition	-	430,601	-	-

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
32. Notes To The Statement Of Cash Flows (cont'd)				
(c) Business Disposed				
During the 2002 financial year, the economic entity disposed of its interests in Concept Training Institute Pty Ltd.				
Cash consideration	-	5,000,000	-	5,000,000
Disposal costs	-	(357,506)	-	(357,506)
	-	4,642,494	-	4,642,494
Net cash inflow on disposal				
Less cash balances disposed	-	218,493	-	218,493
	-	4,424,001	-	4,424,001
Book value of net assets sold				
Current assets				
Cash	-	218,493	-	-
Receivables	-	765,126	-	-
Prepayments	-	40,395	-	-
Inventory	-	85,958	-	-
Non-current assets				
Plant and equipment	-	516,453	-	-
Intangibles	-	1,703,781	-	-
Other non-current assets	-	2,109,937	-	-
Liabilities				
Trade creditors	-	1,127,313	-	-
Provisions	-	299,958	-	-
Unearned Income	-	472,603	-	-
Other liabilities	-	133,333	-	-
	-	3,406,936	-	-
Profit on business disposal	-	1,235,558	-	-
(d) Financing Facilities				
Secured convertible notes payable:				
> amount used	1,250,000	2,508,443	1,250,000	2,508,443
> amount unused	-	-	-	-
	1,250,000	2,508,443	1,250,000	2,508,443

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
32. Notes to the Statement of Cash Flows (cont'd)				
(e) Reconciliation of Operating Profit/(Loss) After Income Tax to				
Net Cash Flows From Operating Activities				
Operating (loss)/profit after income tax	(1,828,195)	(8,692,573)	34,128	545,195
Depreciation and amortisation of non-current assets	371,705	187,994	-	-
Loss on disposal of non-current assets	24,673	-	-	-
Amortisation of goodwill	431,160	886,003	-	-
Amortisation of software and research & development	-	1,438,899	-	-
Amounts credited to provisions	-	1,205,793	-	-
Diminution of intangibles	-	9,799,258	-	-
Increase in tax losses purchased for due consideration	-	-	-	162,680
Profit on sale of training business	-	(1,235,558)	-	(636,128)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses				
(Increase)/Decrease in assets:				
Current receivables	30,256	765,126	83,249	(63,248)
Current inventories	-	85,958	-	-
Prepayments and deferred expenses	(341,768)	40,395	(118,713)	(163,078)
Increase/(Decrease) in liabilities:				
Current trade payables	(5,884)	(1,127,313)	3,523	(113,194)
Unearned income	(175,574)	(472,603)	-	-
Other liabilities	402,829	(133,333)	88,238	-
Net cash from/(used in) operating activities	(1,090,798)	2,748,046	90,425	(267,773)

33. Financial Instruments

(a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Interest Rate Risk

The economic entity is exposed to interest rate fluctuations as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities. The following schedule summarises the interest rate risk for the economic entity, together with the effective weighted average interest rate for each class of financial assets and financial liabilities.

33. Financial Instruments (cont'd)

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing		Total	
	2003	2002	2003	2002	Within Year		1-5 Years		2003	2002	2003	2002
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets												
Cash	2.65	2.8	1,244,778	1,701,108	-	-	-	-	-	-	1,244,778	1,701,108
Receivables	-	-	-	-	-	-	-	-	2,588,932	2,619,188	2,588,932	2,619,188
Total Financial Assets	-	-	1,244,778	1,701,108	-	-	-	-	2,588,932	2,619,188	3,833,710	4,320,296
Financial Liabilities												
Accounts Payable	-	-	-	-	-	-	-	-	6,028,300	6,121,518	6,028,300	6,121,518
Debenture	9.2	9.2	-	-	1,250,000	2,508,443	-	-	-	-	1,250,000	2,508,443
Finance Lease Liabilities	15.7	8.9	-	-	79,513	13,286	168,446	-	-	-	247,959	13,286
Total Financial Liabilities	-	-	-	-	1,329,513	2,521,729	168,446	-	6,028,300	6,121,518	7,526,259	8,643,247
Total Financial Assets (Liabilities)			1,244,778	1,701,108	(1,329,513)	(2,521,729)	(168,446)	-	(3,439,368)	(3,502,330)	(3,692,549)	(4,322,951)

(c) Net Fair Values of Financial Assets and Liabilities

The net fair values of cash and cash equivalents and non-interest-bearing monetary financial assets and liabilities approximate their carrying values as disclosed in the balance sheet and in the notes to the financial statements.

No financial assets or financial liabilities are readily traded on organised markets in standardised form.

(d) Credit Risk Exposure

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and in the notes to the financial statements.

34. Fundamental Error

(a) Fundamental Error in Expenses from Ordinary Activities

In the previous financial year, expenses from ordinary activities included \$302,668 in royalties payable to third-party suppliers of software in relation to sales that were made in the prior financial period. These royalties payable were not recognised or accrued as at 30 June 2001. The error had the effect of understating operating losses and accumulated losses for the year ended 30 June 2001, and understating creditors and total liabilities as at 30 June 2001 by \$302,668. Restated financial information for 2002 is presented below as if the error had not been made.

(b) Fundamental Error in Income Tax on Ordinary Activities

In the previous financial year, income tax on ordinary activities includes \$1,266,718 of taxation reversals resulting from the overstatement of income tax expense during the year ended 30 June 2001. This overstatement arose through the treatment of the derecognition of future income tax benefits the economic entity had previously acquired through the acquisition of a subsidiary. This amount was expensed rather than being adjusted against the goodwill on acquisition. The error had the effect, after the restatement of the amortisation of goodwill of \$98,633, of overstating net losses by \$1,168,085 and understating net goodwill by \$1,168,085 as at 30 June 2001. Restated financial information for 2002 is presented below as if the error had not been made.

	Economic Entity 2002 Restated \$	Parent Entity 2002 Restated \$
34. Fundamental Error (cont'd)		
Sales revenue (sale of goods)	17,524,335	-
Cost of sales	(8,675,508)	-
Gross Profit	8,848,827	-
Other revenues	5,018,030	5,496,552
Expenses from ordinary activities	(7,284,355)	(63,000)
Borrowing Costs	(382,216)	(361,805)
Amortisation of intangible assets	(2,202,636)	-
Diminution of intangible assets	(9,799,258)	-
Cost of training business divestment	(3,764,442)	(4,363,872)
(Loss)/Profit From Ordinary Activities Before Income Tax Expense	(9,566,050)	707,875
Income tax benefit/(expense) relating to ordinary activities	8,060	(162,680)
(Loss)/Profit From Ordinary Activities After Related Income Tax Expense	(9,557,990)	545,195
(Loss)/Net Profit and Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity	(9,557,990)	545,195
Earnings Per Share		
Basic (cents per share)	(0.078)	
Diluted (cents per share)	(0.078)	
Weighted average number of ordinary shares	123,182,541	
Restatement of Retained (Losses)/Profits		
Previously reported retained (losses)/profits at the end of the previous financial period	(17,744,033)	(20,175,502)
Correction of fundamental errors	865,417	-
Restated retained (losses)/profits at the beginning of the financial year	(16,878,616)	(20,175,502)
(Loss)/Profit from ordinary activities after income tax expense	(9,557,990)	545,195
Restated retained (losses)/profits at the reporting date	(26,436,606)	19,630,307

Number of Holders of Equity Securities

Ordinary Share Capital

260,608,200 (2002: 218,941,534) fully paid ordinary shares are held by 3,077 (2002: 2,242) shareholders. No shares are subject to escrow provisions imposed by the Australian Stock Exchange.

All issued ordinary shares carry one vote per share.

Options

16,568,333 (2002: 33,083,333) options are held by 31 (2002: 43) optionholders.

Distribution of Holders of Equity Securities

	Fully Paid Ordinary Shares	Number of Shareholders
1 – 1,000	427,003	936
1,001 – 5,000	1,733,282	526
5,001 – 10,000	3,078,695	356
10,001 – 100,000	39,565,343	1,049
100,001 and over	215,803,877	210
	<u>260,608,200</u>	<u>3,077</u>
Holdings less than a marketable parcel (less than 7,142 fully paid ordinary shares)	<u>719,312</u>	<u>1,104</u>

In July 2003, Concept Systems International Limited issued an additional 41,666,666 ordinary shares at 3 cents each pursuant to the convertible notes facility. This issue was in exchange for the \$1,250,000 convertible notes debt outstanding at that time.

Substantial Shareholders

	Fully Paid No.	Ordinary Shares %
Morgan and Banks Investments Pty Ltd	83,333,332	31.98
Mr Gregory Phillips	17,912,900	6.87
Mrs Helen Phillips	17,312,500	6.64
Tricom Nominees Pty Ltd	12,004,534	4.61
Marshall Investments Pty Ltd	9,158,333	3.51
	<u>139,721,599</u>	<u>53.61</u>

Top 20 Shareholders

	Fully Paid Ordinary Shares	
	No.	%
1. Morgan and Banks Investments Pty Ltd	83,333,332	31.98
2. Mr Gregory Phillips	17,912,900	6.87
3. Mrs Helen Phillips	17,312,500	6.64
4. Tricom Nominees Pty Ltd	12,004,534	4.61
5. Marshall Investments Pty Ltd	9,158,333	3.51
6. Hestian Pty Ltd	4,696,356	1.80
7. Ecom Investments Capital Ltd	3,596,127	1.38
8. Mr Ross Francis Baildon	2,723,166	1.04
9. JC Marshall Superfund	2,508,333	0.96
10. Merrill Lynch (Australia) Nominees Ltd	2,100,000	0.81
11. Mr Russel and Susan Ingersoll	2,040,000	0.78
12. Cardy & Company Pty Ltd	1,865,691	0.72
13. O V S Holdings Pty Ltd	1,666,666	0.64
14. Stanvik Pty Ltd	1,550,000	0.59
15. Fortis Clearing Nominees Pty Ltd	1,450,000	0.56
16. Mr Glenn and Diane Smith	1,182,803	0.45
17. Custodial Services Ltd	1,162,500	0.45
18. Mainly Ltd	1,100,000	0.42
19. Mr Luke Dawson Harper	1,023,100	0.39
20. Mount Horsefall Holding Pty Ltd	1,019,575	0.39
	<u>169,405,916</u>	<u>65.00</u>

Company Secretary

Mr Michael Bermeister

Principal Registered Office

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Stock Exchange Listings

Concept Systems International Limited ordinary shares are quoted by the Australian Stock Exchange (symbol CSI).