



XTEK LTD
ABN 90 103 629 107



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Manager,
Company Announcements Office
Australian Securities Exchange
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

28th February 2008

By Electronic Lodgement

Dear Sir/Madam,

LODGEMENT OF HALF YEAR FINANCIAL REPORT

In accordance with the Listing Rules, please find attached the Half Year Financial Report (Appendix 4D) for XTEK Limited (XTE) for the financial period ended 31st December 2007.

Should you require any further information in respect to this matter please contact the Company Secretary, Mr. Lawrence Gardiner at Laurie@xtek.net or (02) 6280 6321 in the first instance.

Yours sincerely,

Lawrence A. Gardiner
Company Secretary

Attachment: XTEK Ltd Half Year Financial Report (Appendix 4D) 31st December 2007.

Branch Offices

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XTEK LIMITED

ABN 90 103 629 107

**HALF-YEAR FINANCIAL REPORT
APPENDIX 4D
31 DECEMBER 2007**

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Results for Announcement to the Market

Name of the Company: XTEK Limited
ABN 90 103 629 107

				December 2007
Total Revenue	down	42%	to	\$ 3,375,453
Loss before tax	up	17%	to	(1,769,990)
Net loss attributed to members of parent	up	17%	to	(1,769,990)

Dividends	Amount per security	Franked amount per security	Record date for determining entitlements to dividends
Current year – 2007:			
- Interim dividend	n/a	n/a	n/a
- Final dividend	n/a	n/a	n/a
Previous year – 2006:			
- Interim dividend	n/a	n/a	n/a
- Final dividend	n/a	n/a	n/a

Net tangible assets	December 2007	December 2006
Net tangible assets per security	\$0.07	\$0.09

For further explanation of the above figures refer to the Directors' Report and Management Discussion and Analysis. Other financial information required by the Appendix 4D is contained in the Financial Statements.



Management Discussion & Analysis

Results Review – XTEK Group

Agency Sales in the first half of the 2007-2008 financial year were significantly lower than expected and ended the period down 42% on the corresponding period to December 2006. In addition to the delays in procurement by government agencies, the company also faced slower than expected deliveries by suppliers as the global demand for these products increased. Orders to the value of \$515k were delivered after December 2007 and invoiced in 2008. As a result revenue for the first half has fallen behind expectations and given rise to the loss as reported.

Operational expenses are in line with budget and the company continues to manage these closely.

Results

Category	Half-Year ended 31 December 2007 \$	Half-Year ended 31 December 2006 \$	Movement %
Sales			
EOD/IEDD General	701,419	2,291,043	(69%)
Large Robots	-	1,221,750	
Small Robots	50,959	-	
General Security	342,844	630,134	(46%)
Forensics	371,165	464,833	(20%)
Weapons and Ammunition	516,752	40,086	1,189%
Logistics Engineering Revenue	768,537	1,006,994	(24%)
Proprietary Products/Services	259,429	-	
Commission	297,285	-	
Total Sales	3,308,390	5,654,840	(41%)
Cost of Goods Sold	(1,926,182)	(3,724,172)	
Gross Profit	1,382,208	1,930,668	(28%)
GP %	42%	34%	
Other Income	67,063	198,723	(66%)
Agency Expenses	(2,615,846)	(3,043,241)	14%
Agency Share Based Payments	(64,182)	(20,356)	(215%)
Agency EBIT	(1,230,757)	(934,206)	(32%)
Other Non Agency Related Expenses	-	(73,067)	
R&D Divisional Expenses	(470,007)	(598,154)	21%
R&D Development Costs capitalised	89,705	217,563	(143%)
R&D Development Costs expensed	(149,454)	-	
Total R&D Facility Expenses	(529,756)	(380,591)	(39%)
Finance costs	(9,477)	(124,597)	92%
Loss before tax	(1,769,990)	(1,512,461)	(17%)
Income Tax Expense	-	-	
Loss after tax	(1,769,990)	(1,512,461)	(17%)

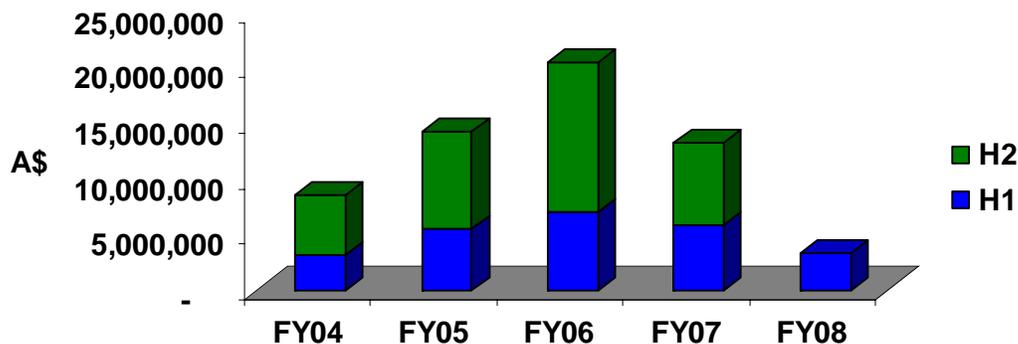


First Half Review

Sales Revenue

- The first half revenue performance, whilst behind expectations is again consistent with the company's revenue seasonality and a strong second half is expected.
- Sales Revenue to 31 December 2007 is down 42% on the corresponding period in the previous financial year. This is mainly as a result of lower year on year sales of EOD and general security equipment and there have been no repeat sales of tEODor (*telerob Explosive Ordnance Disposal and observation robot®*) robots, 2 of which were sold in July 2006.
- Whilst the year on year sales in Forensics are also behind 2006/2007, this is attributed to timing with a strong second half predicted for this category. In addition, the orders in hand for weapons and ammunition sales are indicating strong growth for the period to June 2008.
- The Logistics Engineering Division revenue is down 24% on the same period to December 2006. This is partly due to the large orders in 2006 for tEODor spares that have not been repeated in the same volume this year and also due to timing with several other tEODor project deliverables due in the coming months.
- Proprietary sales included sales of the Static Earthing Kits designed for use in EOD operations and the ballistic plate samples for the MCBAS tender for which the company was short listed but was ultimately unsuccessful. There were also sales of weapons ancillaries designed and manufactured at the R&D facility and further orders for these have been received for the second half.
- The Gross Margin has also improved to 42% largely due to a one-off commission sale in September. Excluding the commission, the gross margin rose to 36% compared with 34% in the period to December 2006.

XTEK total revenue comparison on a half year basis



Other Income

- Down 72% on the corresponding period in FY07 with lower interest earned and no grant income recorded in the period (Export Market Development Grant of \$70k was received in December 2006).



Agency Business Expenses

- Expenses from the agency operations are down 14% on the same period to December 2006 as the company continues to focus on cost control measures. Staff headcount has reduced from 43 in December 2006 to 36 currently and there have also been significant savings in consultancy expenses. A detailed breakdown of these costs can be seen in note 3.a.
- There were no significant non agency related expenses for the period to December 2007. The expense for the prior year was a fair value adjustment of \$73,067 for the \$2m reconstituted convertible notes.

Research and Development Expenses

- Net operating expenditure at the R&D facility was down 21% on the period to 31 December 2006 as a result of lower staff numbers and lower project costs. In addition, the facility has focused on commercial opportunities as well as the core R&D activities and has recorded further sales of weapons ancillaries and also design and consulting services.
- The facility has made steady progress in the commercialisation of two development projects in the first half. These are the ballistic protection plates and small arms armour piercing ammunition. There has been constructive feedback from a major European ammunitions manufacturer regarding potential opportunities for the AP ammunition and XTEK continues to make progress with the innovative ballistic protection production technique.
- Development expenses that have been capitalised in the period to 31 December 2007 relate to new activities on the ballistic protection project.
- As part of its continuing review of intangible assets, the company has written-off \$149,454 of development costs that had been capitalised at 31 December 2006 in connection with the initial work on the ballistic plate project.

Second Half / Other Business

- As part of the continual improvement program, the company has appointed a new Head of Sales and created a new Business Development position to focus on emerging technologies relevant to the targeted market sectors. A thorough review of agency lines is underway to determine the best strategy in engaging the target markets with the right product mix and adding value with the bundling of products to provide attractive integrated solutions.
- The company has developed and now possesses the capability to provide Turnkey Project Management and Through Life Support services which enable it to act as a Prime Systems Integrator on Defence contracts. These contracts are typically of between 2 and 10 years tenure. Whilst unsuccessful with two tenders in H1 with potential revenues in excess of \$85m and \$5m, XTEK has nevertheless been complimented on its capability and are confident of future success in the coming months.
- As evidence of opportunities arising for the company is a tender to the Department of Defence which has been submitted for XTEK to act as a Prime Systems Integrator to deliver new capability to Defence as part of Land 125 Soldier Combat Systems and if successful, will provide revenue benefits from May 2008 for a number of years through the Life of Type.
- The company has booked orders in H1 for delivery in H2 in product lines that have taken time to bear fruit. After a quiet period in 2007/2008, a number of Law Enforcement agencies have made significant purchases to further improve capability with deliveries due in H2 and it is expected there will be additional orders in H2 for completion this financial year. These include further orders for weapons systems and for EOD robots.
- The company currently has an undrawn Trade Finance Facility with Bendigo Bank to the value of \$3.9m to assist with the financing of material orders including EOD products and robots.



New Agencies in H1 2008

Rajant Corporation

Rajant has developed an advanced technology that creates portable meshed wireless networks that can rapidly reconfigure and adapt in real-time. These systems are in use in many major Defence forces and are an ideal solution to expand the range of wireless communications in networked and portable security systems in military, law enforcement and commercial environments.

Kappler

One of the world's leaders in the design and manufacture of protective clothing in emergency response, hazardous material handling and medicine, Kappler supplies many government agencies and commercial organisations around the world with their protection requirements.

List of abbreviations and acronyms

AP	Armour Piercing
EOD	Explosive Ordnance Disposal
IEDD	Improvised Explosive Device Disposal
R&D	Research and Development
tEODor®	telerob Explosive Ordnance Disposal and observation robot®



Directors' Report

Your directors submit their report for the half-year ended 31 December 2007.

Directors

The names of the company's directors in office during the half-year ended 31 December 2007 and until the date of this report are as below. The Directors were in office for this entire period unless otherwise stated.

Mr Bruce Higgins

Director (appointed 1 May 2006)

Mr Craig Higgins

Director (appointed 24 March 2006)

Major General Michael O'Brien CSC (Retired)

Director (appointed 26 September 2007)

Review and Results of Operations

A review of XTEK's operations and the results of those operations are contained in both the attached Management Discussion and Analysis and the Financial Statements which both form part of this Half-Year Financial Report.

Auditor's Independence Declaration

We have obtained an independence declaration from the auditors, Ernst & Young. The signed declaration is included on the following page.

Signed in accordance with a resolution of the Board of Directors.

Bruce Higgins
Chairman
Canberra
28th February 2008

Auditor's Independence Declaration to the Directors of XTEK LTD



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Canberra ACT 2600
Australia

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GPO Box 911
Canberra ACT 2601

Auditor's Independence Declaration to the Directors of XTEK Limited

In relation to our review of the financial report of XTEK Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

James Palmer
Partner
Canberra

28 February 2008

Liability limited by a scheme approved under
Professional Standards Legislation.



Financial Statements

Condensed Income Statement

For the half-year ended 31 December 2007

	Notes	CONSOLIDATED	
		2007	2006
		\$	\$
Revenue	3	3,308,390	5,654,840
Cost of Sales		(1,926,182)	(3,724,172)
Gross profit		<u>1,382,208</u>	<u>1,930,668</u>
Other Income	3	67,063	198,723
Other Expenses	3	(3,209,784)	(3,517,255)
Finance Costs	3	(9,477)	(124,597)
Loss before tax		<u>(1,769,990)</u>	<u>(1,512,461)</u>
Income tax expense		-	-
Loss after tax attributable to members of parent		<u>(1,769,990)</u>	<u>(1,512,461)</u>
Earnings per share (cents per share)			
- basic for the half-year loss attributable to ordinary equity holders of the parent		(0.025)	(0.028)
- diluted for the half-year loss attributable to ordinary equity holders of the parent		(0.025)	(0.028)
Dividends paid per share	6	-	-



Balance Sheet

As at 31 December 2007

	Notes	CONSOLIDATED	
		As at 31 December 2007	As at 30 June 2007
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,307,160	2,305,358
Trade and other receivables		778,913	1,808,690
Inventories	7	1,624,936	1,641,859
Other		337,787	304,235
Total Current Assets		4,048,796	6,060,142
Non-current Assets			
Property, plant and equipment	8	1,853,710	2,016,966
Intangible assets		157,814	217,563
Total Non-current Assets		2,011,524	2,234,529
TOTAL ASSETS		6,060,320	8,294,671
LIABILITIES			
Current Liabilities			
Trade and other payables		679,634	1,176,150
Interest-bearing liabilities		94,047	78,360
Provisions		58,511	55,771
Deferred Income		118,929	105,039
Accrued Liabilities		317,293	336,766
Total Current Liabilities		1,268,414	1,752,086
Non-current Liabilities			
Interest-bearing liabilities		148,099	202,229
Provisions		14,611	5,352
Total Non-current Liabilities		162,710	207,581
TOTAL LIABILITIES		1,431,124	1,959,667
NET ASSETS		4,629,196	6,335,004
EQUITY			
Contributed Equity	10	16,840,455	16,826,955
Reserves		389,518	338,836
Retained losses		(12,600,777)	(10,830,787)
TOTAL EQUITY		4,629,196	6,335,004



Cash Flow Statement

For the half-year ended 31 December 2007

Notes

CONSOLIDATED

2007

2006

\$

\$

Cash flows used in operating activities

Receipts from customers	4,789,709	9,544,918
Payments to suppliers and employees	(5,656,942)	(10,955,075)
Receipts of Grants	-	70,000
Interest received	50,949	75,454
Borrowing costs	(9,477)	(21,072)

Net cash flows used in operating activities

(825,761) (1,285,775)

Cash flows used in investing activities

Proceeds from sale of property, plant and equipment	-	46,158
Payments for property, plant and equipment	(44,289)	(303,035)
Payments for capitalised development expenditure	(89,705)	(217,563)

Net cash flows used in investing activities

(133,994) (474,440)

Cash flows from financing activities

Proceeds from issues of ordinary shares	-	1,180,000
Proceeds from borrowings	-	3,000,000
Repayments of borrowings	(38,443)	(140,259)

Net cash flows used in financing activities

(38,443) 4,039,741

Net increase/(decrease) in cash and cash equivalents	(998,198)	2,279,526
Cash and cash equivalents at beginning of period	2,305,358	1,335,543

Cash and cash equivalents at end of period

5 1,307,160 3,615,069



XTEK Limited Half-Year Report 31 December 2007

Statement of Changes in Equity

For the half-year ended 31 December 2007

CONSOLIDATED

	Attributable to equity holders of the parent				Total equity
	Issued Capital	Other Equity Securities	Equity-based payments reserve	Retained earnings	
	\$	\$	\$	\$	
At 1 July 2007	16,753,888	73,067	338,836	(10,830,787)	6,335,004
Loss for the half-year	-	-	-	(1,769,990)	(1,769,990)
Total income and expense for the period	-	-	-	(1,769,990)	(1,769,990)
Issues of ordinary shares during the half-year:					
Issue of shares to employees for no consideration (note 10)	13,500	-	-	-	13,500
Cost of share based payments (note 9)	-	-	50,682	-	50,682
At 31 December 2007	16,767,388	73,067	389,518	(12,600,777)	4,629,196



XTEK Limited Half-Year Report 31 December 2007

For the half-year ended 31 December 2006

CONSOLIDATED

	Attributable to equity holders of the parent					Total equity
	Issued Capital	Other Equity Securities	Equity-based payments reserve	Foreign currency translation reserve	Retained earnings	
	\$	\$	\$	\$	\$	\$
At 1 July 2006	10,574,138	73,918	271,289	(67,744)	(8,713,190)	2,138,411
Currency translation differences	-	-	-	1,896	-	1,896
Transfer to income statement	-	-	-	65,848	-	65,848
Total income and expense for the period recognised directly in equity	-	-	-	67,744	-	67,744
Loss for the half-year	-	-	-	-	(1,512,461)	(1,512,461)
Total income and expense for the period	-	-	-	67,744	(1,512,461)	(1,444,717)
Issues of ordinary shares during the half-year:						
Issue of share capital	1,180,000	-	-	-	-	1,180,000
Transaction costs associated with issue of share capital	(13,250)	-	-	-	-	(13,250)
Conversion of Convertible Notes	4,419,801	-	-	-	-	4,419,801
Cost of share based payments	-	-	20,356	-	-	20,356
At 31 December 2006	16,160,689	73,918	291,645	-	(10,225,651)	6,300,601



Notes to the Half-Year Financial Statements

Note 1. Corporate Information

The half-year financial report of XTEK Limited for the period ending 31 December 2007 was authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2008. XTEK Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Note 2. Summary of Significant Accounting Policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of XTEK Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by XTEK Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

Note 2.a Basis of Preparation

The half year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, and Accounting Standard AASB 134 Interim Financial Reporting.

The half-year financial report is presented in Australian dollars.

Note 2.b Going Concern basis of Accounting

The financial report has been prepared on the going concern basis. The company has made a loss for the half year ended 31 December 2007 of \$1,769,990 (half year ended 31 Dec 06: loss of \$1,512,461). Accumulated losses to 31 December 2007 total \$12,600,777. The balance of cash and cash equivalents at 31 Dec 07 was \$1,307,160. The ability of the company to continue as a going concern is dependant on the company's ability to meet its debts as and when they fall due and payable. The company has prepared cash flow forecasts for the next twelve months which reveal that the company will be able to meet its debts as and when they fall due and payable. These cash flow forecasts are based on a number of assumptions in particular about the company's ability to meet projected sales levels.

The directors are confident that the company will meet these projected agency sales and on this basis the directors believe the adoption of the going concern basis of accounting is justified. However, should this position change the company may not be able to pay its debts as and when they fall due and may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability and classification of recorded asset amounts nor to the amount and classification of liabilities that might be necessary should the company not continue as a going concern.



XTEK Limited Half-Year Report 31 December 2007

Note 2.c Significant Accounting Policies

Certain Australian Accounting Standards and Australian Accounting Interpretations have been issued or amended and are mandatory for the periods beginning on or after 1 July 2007. The directors have assessed that the adoption of those standards did not have any effect on the financial position or performance of the Group.

Note 2.d Basis of Consolidation

The half-year consolidated financial statements comprise the financial statements of XTEK Limited and its subsidiaries ('The Group') at 31 December 2007.

Note 3.a Revenue, Income and Expenses

	CONSOLIDATED	
	2007	2006
	\$	\$
(i) Revenue		
Sale of goods	2,239,131	4,660,172
Repairs and sales of parts	541,430	711,792
Services	527,829	282,876
	<u>3,308,390</u>	<u>5,654,840</u>
(ii) Other Income		
Interest	50,949	74,694
Hire and Rent of Equipment/storage	16,013	48,882
Grant Income	-	70,000
Other	101	5,147
	<u>67,063</u>	<u>198,723</u>
(iii) Other expenses		
Depreciation and amortisation	268,810	267,191
Employee benefits and related costs	1,411,975	1,567,176
Share Based Payments Expenses (note 10)	64,182	20,356
Directors Fees	64,220	74,919
Consultancy fees	179,145	268,836
Legal fees	10,223	27,307
Audit fees	38,758	21,712
Advertising and conferences	154,014	145,823
Travel and related costs	162,271	212,555
Share Registry Fees	23,612	26,674
FBT	66,000	85,000
Insurance	96,168	100,104
Lease charges	96,936	123,014
Office administrative costs	323,397	331,028
Workshop/Project Materials	52,046	39,909
Capitalised development costs expensed	149,454	-
Fair Value Adjustment for Convertible Notes	-	73,067
Foreign exchange losses	-	27,493
Other expenses	48,573	105,091
	<u>3,209,784</u>	<u>3,517,255</u>
(iv) Finance Costs		
Interest Expense	9,477	20,097
Notional Interest on Convertible Notes	-	104,500
	<u>9,477</u>	<u>124,597</u>



XTEK Limited Half-Year Report 31 December 2007

Note 3.b Seasonality of Operations

Due to the nature of contracts held with the Department of Defence and other government customers, the majority of the revenue for the financial year will be reflected in the results of the second half of the financial year.

Note 4. Geographical Segment Information

The following table presents the revenue and profit information regarding geographical segments for the half-year periods ended 31 December 2007 and 31 December 2006:

	Australasia \$	United Kingdom \$	Total \$
31 December 2007			
Segment revenue (Sales to external customers)	3,375,453	-	3,375,453
Segment result	(1,819,898)	49,908	(1,769,990)
31 December 2006			
Segment revenue (Sales to external customers)	5,891,918	-	5,891,918
Segment result	(1,385,892)	(126,569)	(1,512,461)

Note 5. Cash and Cash Equivalents

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	2007	2006
	\$	\$
Cash at bank and in hand	1,307,160	3,615,069

Note 6. Dividends Paid and Proposed

No dividends have been declared or proposed in the half-year to 31 December 2007 or in the corresponding period in FY07.

Note 7. Inventories

During the half-year ended 31 December 2007 there were no inventory write downs.

Note 8. Property, plant and equipment

During the half-year ended 31 December 2007, the group acquired assets with a cost of \$44,289 (2006: \$303,035). In addition demonstration equipment with a value of \$62,624 was transferred from inventory to property, plant and equipment.

Assets with a net book value of \$1,357 were scrapped by the group during the half-year ended 31 December 2007 (2006: \$46,599), resulting in a loss on disposal of \$1,357 (2006: \$441).



Note 9. Share Based Payments

Employee share issue

On 28 August 2007 it was resolved to issue 108,000 shares to eligible employees under the Employee Share Ownership Plan (ESOP). In implementing the ESOP, the company offered 27 eligible employees with 12 months service an initial grant of \$500 in XTEK shares (XTE) for no consideration. The shares are restricted from sale for three years during the term of employment of the employee. The shares were issued on 29 August 2007. Fair value of the shares issued to staff and senior executives was \$13,500 and has been expensed in the income statement.

Performance Rights issued to XTEK Executives

On 10 August 2007, 2,190,000 performance rights were issued to qualifying employees under the XTEK Long Term Incentive Rights Plan (LTIRP) for executives and managers of the company.

The performance rights were issued in three tranches and are subject to the achievement of performance hurdles. 400,000 will vest at 30 June 2008, 400,000 at 30 June 2009 and 1,390,000 at 30 June 2010. All performance rights issued under this arrangement will be eligible for exercise by the participants upon vesting and for a period up to 5 years from grant date. Issue and vesting details are listed below.

The fair value of the performance rights granted is estimated as at the grant date using a Monte Carlo model taking into account the terms and conditions upon which the options were granted.

The following assumptions underlie the calculations for these rights:

Grant Date	10 August 2007
Share Price	\$0.135
Risk free rate	6.14%
Dividend Yield	0%
Volatility	70% p.a. to 30 June 2008 65% p.a. to 30 June 2009 55% p.a. to 30 June 2010 50% p.a. thereafter

The estimated fair value of the performance rights at grant date is as follows:

Vesting Date 30 June 2008	3.5c, exercisable at 17.61c
Vesting Date 30 June 2009	4.8c, exercisable at 17.61c
Vesting Date 30 June 2010	5.5c, exercisable at 17.61c

Expired Options

1,110,000 options expired on 1 August 2007 and are therefore cancelled.

Note 10. Contributed Equity

Note 10.a Share Capital

Movement in ordinary share capital on issue	No of shares	\$
At 1 July 2007	71,432,000	16,753,888
Share Offer for no consideration expensed through Share Based Payments (note 9)	108,000	13,500
	<u>71,540,000</u>	<u>16,767,388</u>

Ordinary Shares

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



Note 10.b Other Equity Securities

Equity component of convertible notes	73,067
Total Contributed Equity	<u>16,840,455</u>

Note 11. Related Party Disclosures

The following table provides the total amount of transactions that were entered into with related parties for the half-year ended 31 December 2007 and 31 December 2006:

Purchases from Related Parties	31 December 2007	31 December 2006
	\$	\$
Total Paid to Weber/French Group principally for property leases.	167,116	142,189
Total Paid to Bruce Higgins (director) for consulting services	-	83,633

Note 12. Contingent Liabilities

There are no contingent liabilities as at 31 December 2007.

No changes have been reported in contingent liabilities since the last annual reporting date.

Note 13. Events after the Balance Sheet Date

In January 2008, XTEK activated the Trade Finance Facility with Bendigo Bank. This facility was set up in March 2007 with a limit of \$4m to assist with the financing and purchase of large EOD products and robots.

As at the date of announcement, XTEK has used \$70,897 of the facility to assist with an EOD purchase for a local law enforcement agency. The interest rate is 10.57% and maturity date will be when the letter of credit for the purchase of the equipment is discharged. The security for the facility is the existing first registered fixed and floating charge on all present and future assets including uncalled capital.



Director's Declaration

In accordance with a resolution of the Board of Directors of XTEK Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Bruce Higgins
Chairman
Canberra
28th February 2008

Independent Review Report to the Members of XTEK LTD



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Report on the Half-Year Condensed Financial Report to the members of XTEK Limited

We have reviewed the accompanying half-year financial report of XTEK Limited and the entities it controlled during the half-year, which comprises the balance sheet as at 31 December 2007, and the condensed income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of XTEK Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Liability limited by a scheme approved under
Professional Standards Legislation.

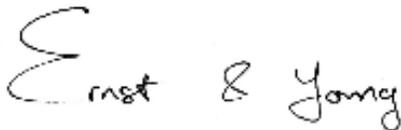
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of XTEK Limited and the entities it controlled during the half-year is not in accordance with:

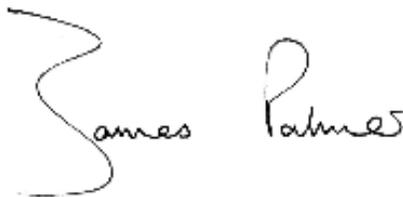
- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty regarding continuation of Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2.b "Going concern basis of accounting" to the financial statements there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young



James Palmer
Partner
Canberra

28 February 2008