

OPTIMA

Corporation Limited

MANAGING DIRECTOR'S REVIEW

for the year ended 30 June 2004



West

**CREATURES
OF LEISURE**



This has been a year of significant changes and development for Optima. In November 2003, the Company made a modest placement of \$600,000 as additional working capital to review a number of investment opportunities. At that time, a decision was taken by the Directors to scale down its involvement in the financial services sector.

In December 2003, the Company acquired an exclusive licence to manufacture, market, use, sell and distribute products designed by the well known West Australian surf company "West Surfing Products" in the world's largest surf market, the United States of America (the "Licence"). In consideration for the acquisition of the Licence, the Company issued 7,250,000 fully paid ordinary shares at an issue price of \$0.05 each and 7,250,000 options (exercisable at 20 cents each on or before 31 December 2004).

In April 2004, the Company completed a capital raising of \$1,842,900 by the issue of 9,214,500 fully paid ordinary shares at 20 cents each. This capital raising was directed at funding the development of the Company's marketing of the brand "West Surfing Products" in the United States.

Since the recapitalisation in April, the Company has made sound progress, all directed at laying a solid foundation leading up to the Company's official USA launch of "West", in September.

Mr Jim Watson was appointed the President and CEO of West Surfing Products (USA) Inc, based in Carlsbad, Southern California. Jim brings to the table more than 20 years' executive experience in the US surfwear industry, including US national sales and marketing positions with Reef, Flojos, Bubblegum Surf Wax Company, the Stubbies Pro Surf Contest and JEB Industries, one of Orange County's largest cut & sew manufacturers.

In addition, Mr Michael Leshar, a former senior executive in the USA with iconic surf wear brands, Quiksilver and Billabong, was appointed to the board of Optima as a non-executive and independent director. Mike was recently at Fusion International Partners, where he served as the Chief Executive Officer for the Surf, Skate and Snow aggregator company. Prior to Fusion he was the CEO for Counter Culture Clothing, a boutique surf clothing company in California. From 1998-2000, Mike was the Director of Sales for Hurley International, achieving a multi-million dollar sales in its first year. He spent 14 years as the Director of Sales for Billabong U.S.A, growing domestic sales from US\$5.1 million to US\$74.2 million. Mike also worked with Quiksilver USA and Lord-Babcock Inc. between 1975 and 1983.

Optima's wholly owned US based subsidiary, West Surfing Products (USA) Inc, also appointed Mr Mike Sagorin to the position of "Vice President - Operations" who brings to West over 18 years production experience, the last 11 of those years working within the surf industry of the United States. Mike's former positions and employers include:

- ▲ Billabong USA - Domestic Production Director;
- ▲ O'Neill Sportswear USA - Production & MIS Director; and
- ▲ Rip Curl USA - Production Manager.

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Mike's strengths lay in the areas of production, importation, costing, logistics and foreign and domestic manufacturing & sourcing. He is able to source a wide variety of products from well established sources throughout domestic USA, Mexico, Columbia, Canada, China, Hong Kong, India, Japan, Taiwan, Thailand and South Africa.

During the year, advertising and sponsorship initiatives were initiated in the USA, together with trade discussions with key retailers. *West* will exhibit at the ASR Trade Show in San Diego, followed by the Surf Expo in Orlando, Florida, both held in September.

I am also very pleased to report that subsequent to 30 June 2004, Optima secured the exclusive USA distribution and intellectual property rights for well known and respected surf accessories manufacturer, Creatures of Leisure ("**Creatures**"). The Creatures licence is in line with Optima's previously stated strategic objective of securing other surf brands that are complementary to Optima's existing licence with West. The two brands are merchandised through similar distribution channels and complement each other strongly from a logistics, marketing and brand management perspective.

The operating results for this financial year included the writing off of intangible assets including goodwill on consolidation and intellectual property. This accounting treatment has resulted in an uncluttered balance sheet which will facilitate the Company in the implementation of a convergence programme to International Financial Reporting Standards.

Optima is now well positioned to launch its products into the United States. Optima has assembled an experienced management and operational team to plan and execute the launch.

It is with tremendous excitement and anticipation that I look forward to the months ahead. I fully hope to be able to report to you positive developments in the near term.

AUTHORISED BY:

Blair Sergeant
Managing Director

30 August 2004

Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Part 1

Name of Entity	Optima Corporation Limited
ABN	36 098 455 460
Financial Year Ended	30 June 2004
Previous Corresponding Reporting Period	Financial year ended 30 June 2003

Part 2 – Results for Announcement to the Market

	\$'000	Percentage increase /(decrease) over previous corresponding period
Revenue from ordinary activities	65	0%
Loss from ordinary activities after tax attributable to members	(1,151)	(18%)
Net loss attributable to members	(1,151)	(18%)

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Record date for determining entitlements to the dividends (if any)	Not Applicable	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Refer Part 10 for commentary on the results for the year.

Part 3 – Contents of ASX Appendix 4E

Section	Contents
Part 1	Details of entity, reporting period
Part 2	Results for announcement to the market
Part 3	Contents of ASX Appendix 4E
Part 4	Consolidated statement of financial performance
Part 5	Accumulated losses
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Part 17	Issued securities
Part 18	Segment information
Part 19	Subsequent events
Part 20	Impact of adopting Australian equivalents to International Financial Reporting Standards
Part 21	Information on audit or review

Part 4 – Consolidated Statement of Financial Performance

	2004 (\$)	2003 (\$)
Revenue from sale of goods	33,170	38,039
Other revenue from ordinary activities	32,129	27,228
Total revenue	65,299	65,267
Cost of goods sold	(14,400)	(56,145)
Marketing expenses	(65,085)	(21,779)
Operating expenses	(434,374)	(616,082)
Intangible asset written off	(276,765)	-
Goodwill on consolidation written off	(361,439)	-
Provision for doubtful amounts	(63,841)	(374,000)
Provision against investments	-	(401,696)
Loss from ordinary activities before related income tax benefit	(1,150,605)	(1,404,435)
Income tax benefit relating to ordinary activities	-	-
Loss from ordinary activities after related income tax benefit	(1,150,605)	(1,404,435)
Net loss attributed to outside equity interest	-	-
Net loss attributable to members of the parent entity	(1,150,605)	(1,404,435)

Part 5 – Accumulated losses

	2004 (\$)	2003 (\$)
Accumulated losses at the beginning of the year	(2,365,224)	(960,789)
Loss for the year	(1,150,605)	(1,404,435)
Accumulated losses at the end of the year	(3,515,829)	(2,365,224)

Part 6 – Consolidated Statement of Financial Position

	2004	2003
	(\$)	(\$)
CURRENT ASSETS		
Cash assets	1,910,695	212,670
Receivables	15,438	20,199
Other	13,858	10,000
Total Current Assets	1,939,991	242,869
NON CURRENT ASSETS		
Receivables	-	63,841
Plant and equipment	34,834	8,947
Intangible assets	-	48,559
Total Non Current Assets	34,834	121,347
TOTAL ASSETS	1,974,825	364,216
CURRENT LIABILITIES		
Payables	159,658	162,185
Provisions	2,100	-
Total Current Liabilities	161,758	162,185
NON CURRENT LIABILITIES		
Payables	50,000	-
Total Current Liabilities	50,000	-
TOTAL LIABILITIES	211,758	162,185
NET ASSETS	1,763,067	202,031
EQUITY		
Contributed equity	5,278,896	2,567,255
Accumulated losses	(3,515,829)	(2,365,224)
TOTAL EQUITY	1,763,067	202,031

Part 7 – Consolidated Statement of Cash Flows

	2004	2003
	(\$)	(\$)
Cash flows from operating activities		
Cash receipts in the course of operations	29,555	13,519
Cash payments in the course of operations	(585,398)	(545,448)
Interest received	31,247	27,109
<i>Net cash used in operating activities</i>	<u>(524,596)</u>	<u>(504,820)</u>
Cash flows from investing activities		
Payment for investments	-	(1,636)
Cash acquired on acquisition of subsidiary	2,061	-
Payments for plant and equipment	(28,581)	(10,174)
Payments for intellectual property rights	(50,000)	-
Payment of loan to other entities	(50,000)	-
Payments for loans to other entities	-	(440,693)
<i>Net cash used in investing activities</i>	<u>(126,520)</u>	<u>(452,503)</u>
Cash flows from financing activities		
Proceeds from issue of shares	2,442,900	-
Proceeds from exercise of options	-	500
Share issue costs	(93,759)	-
<i>Net cash provided by financing activities</i>	<u>2,349,141</u>	<u>500</u>
NET INCREASE/(DECREASE) IN CASH HELD	1,698,025	(956,823)
Cash at the beginning of the financial year	212,670	1,169,493
Cash at the end of the financial year	<u>1,910,695</u>	<u>212,670</u>

Part 8 – Basis of Preparation

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

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

Part 9 – Loss from Ordinary Activities

The loss from ordinary activities before income tax benefit includes the following items of revenue and expense:

	2004 (\$)	2003 (\$)
<i>Revenue</i>		
Sale of goods revenue from operating activities	33,170	38,039
Interest income	31,128	27,228
Other income	1,001	-
<i>Expenses</i>		
Depreciation - plant and equipment	(2,694)	(1,227)
Amortisation of intellectual property rights	(21,794)	(14,000)
Provision for doubtful amounts	(63,841)	(374,000)
Goodwill on consolidation written off	(361,439)	-
Intangible assets written off	(276,765)	-
Provision against investments	-	(401,696)

Part 10 – Commentary on Results

During the year, the Company acquired a 100% interest in West Surfing Products (USA) Pty Ltd (**WSP**). WSP has an exclusive license to manufacture, market, use, sell and distribute products designed by the well known West Australian surf company “West Surfing Products” within the world’s largest surf market, the United States of America (**License**).

The License allows WSP to sell, supply, use and exploit all of the Trade Marks and Logos owned by West Surfing Products, and to manufacture new projects bearing the Logos and Trade Marks anywhere in the United States.

The consideration of the acquisition of all the shares and options in WSP comprised 7,250,000 fully paid ordinary shares and 7,250,000 options exercisable at 20 cents each on or before 31 December 2004.

To fund this new activity, the Company raised \$1,842,900 by the issue of 9,214,500 shares at 20 cents each.

The results for the year ended 30 June 2004 reflect the change of activity of the Group from the financial service sector to the marketing and distribution of surfing fashion products in the United States. The results included the following significant once-off items:

Goodwill on consolidation written off	\$361,439
Intangible assets written off	\$276,765

As a result of these and other write-offs and provisions, the Company’s Statement of Financial Position is now clearly positioned to implement a convergence programme to International Financial Reporting Standards.

Part 11 – Notes to the Consolidated Statement of Cash Flows

	2004	2003
	(\$)	(\$)
(a) Reconciliation of cash		
For the purposes of the consolidated statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, 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 statement of financial position as follows:		
Cash assets	<u>1,910,695</u>	<u>212,670</u>
(b) Reconciliation of net cash flows from operating activities to loss after income tax		
Loss after income tax	(1,150,605)	(1,404,435)
Add non-cash items:		
Goodwill on consolidation written off	361,439	-
Amortisation	21,794	14,000
Depreciation	2,694	1,227
Intangibles written off	276,765	-
Amounts set aside to provisions	<u>63,841</u>	<u>775,696</u>
Net cash used in operating activities before change in assets and liabilities	(424,072)	(613,512)
Changes in assets and liabilities during the financial year:		
Decrease in receivables	4,761	997
(Increase) in prepayments	(3,858)	(10,000)
Increase in provisions	2,100	-
Increase/(decrease) in accounts payable	<u>(103,527)</u>	<u>117,695</u>
Net cash used in operating activities	<u>(524,596)</u>	<u>(504,820)</u>

Part 12 – Details Relating to Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	
Amount per security	
Total dividend	
Amount per security of foreign sourced dividend or distribution	
Details of any dividend reinvestment plans in operation	
The last date for receipt of an election notice for participation in any dividend reinvestment plans	

Part 13 – Earnings per Share

	2004	2003
Basic earnings per share		
Ordinary shares	(2.30 cents)	(3.80 cents)
The Company's potential ordinary shares are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.		
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	49,961,522	36,992,967

Part 14 – Net Tangible Assets per Security

	2004	2003
Net tangible asset backing per ordinary security (cents)	2.68	0.41

Part 15 – Details of Entities Over Which Control has been Gained or Lost

Name of entity (or group of entities)	West Surfing Products (USA) Pty Ltd
Date control gained or lost	February 2004
Contribution of the controlled entity (or group of entities) to the profit/(loss) from ordinary activities during the period, from the date of gaining or losing control	(485,922)
Profit (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	Not applicable
Contribution to consolidated profit/(loss) from ordinary activities from sale of interest leading to loss of control	Not applicable

Part 16 – Details of Associates and Joint Venture Entities

	Ownership Interest		Contribution to net profit/(loss)	
	2004 %	2003 %	2004 \$A'000	2003 \$A'000
Name of entity	N/A	N/A	N/A	N/A
Associates				
Joint Venture Entities				
Aggregate Share of Losses				

Part 17 – Issued Securities

	2004	2003
	(\$)	(\$)
Share capital		
65,667,001 [2003: 37,202,501] fully paid ordinary shares	<u>5,278,896</u>	<u>2,567,255</u>
<i>The following movements in contributed equity occurred during the year:</i>		
	Number of Ordinary Fully Paid Shares	Issued Capital (\$)
Balance 1 July 2003	37,202,501	2,567,255
Shares issued as a cash placement	12,000,000	600,000
Shares issued to acquire West Surfing Products (USA) Pty Ltd	7,250,000	362,500
Shares issued pursuant to a prospectus	9,214,500	1,842,900
Costs of share issues	<u>-</u>	<u>(93,759)</u>
Balance 30 June 2004	<u>65,667,001</u>	<u>5,278,896</u>
Options		
The following options to subscribe for ordinary fully paid shares are outstanding at balance date:		
53,895,332 options exercisable at 20 cents each on or before 31 December 2004.		

Part 18 – Segment Information

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest revenue.

The consolidated entity operates predominantly in the financial services industry.

Primary reporting - Geographical segments

Segment assets are based on the geographical location to which the assets apply.

	Australia \$A'000		Asia \$A'000		United Kingdom \$A'000		United States \$A'000		Consolidated \$A'000	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Primary reporting										
Geographical segments										
Revenue										
Segment revenue	33,170	38,039	-	-	-	-	-	-	33,170	38,039
Unallocated interest revenue									32,129	27,228
									65,299	65,267
Result										
Segment result	(273,749)	(948,543)	(12,424)	(109,120)	(49,176)	(374,000)	(846,384)	-	(1,181,733)	(1,431,663)
Unallocated interest revenue									31,128	27,228
									(1,150,605)	(1,404,435)
Depreciation and amortisation	(9,035)	(15,227)	-	-	-	-	(376,893)	-	(385,928)	(15,227)
Assets										
Segment assets	1,891,934	301,186	-	-	-	63,030	82,891	-	1,974,825	364,216
Liabilities										
Segment liabilities	(57,391)	(162,185)	-	-	-	-	(154,367)	-	(211,758)	(162,185)

Part 19 – Subsequent Events

Subsequent to balance date, the Company acquired an exclusive distribution and intellectual property rights for all “Creatures of Leisure” products in the United States surfing market (the “Licence”). The consideration for the Licence is \$100,000, of which \$50,000 has been paid and a further \$50,000 is payable by 1 January 2005.

The Licence, which has an initial term of 5 years (with rights to extend for a further term of ten years, subject to certain conditions), allows Optima to sell, supply, use and exploit all of the Trade Marks and Logos owned by Creatures, anywhere in the United States. In addition to the Licence fee of \$100,000, Optima will pay a royalty fee based on gross sales revenue of between 5% & 10%, depending on the level of sales.

Part 20 – Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board (AASB).

The information in this Appendix 4E has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). AASB 1047 ‘Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards’ requires financial reports to disclose information about the impact of any changes in accounting policies in the transition period leading up to the adoption date. This standard applies to interim and annual reporting periods from 30 June 2004 and ceasing to operate on the first-time adoption of Australian equivalents to IFRS.

The Company has allocated internal resources to assess those accounting policies and key areas that are likely to be impacted by the transition to IFRS. Priority has been given to the consideration of the impact of the Australian equivalents to IFRS and the preparation of a statement of financial position in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australia equivalents of IFRS in the future, and is required, when the Company prepares its first financial report, in accordance with IFRS, for the year ended 30 June 2006.

Pursuant to AASB 1047 the Company must provide a statement disclosing the key potential implications of the conversion to IFRS for reporting periods from 1 January 2005. The Company sets out below an explanation of the significant accounting policies which will change and which may impact on future financial reports prepared in accordance with IFRS. These changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Taxation

Under the Australian equivalent to IAS 12 “Income Taxes”, a “balance sheet approach” will be adopted for calculating taxation, replacing the statement of financial performance approach”. This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

Financial Instruments

Under AASB 139 “Financial Instruments: Recognition and Measurement” financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- financial asset or financial liability measured at fair value through the statement of financial performance;
- held to maturity investments measured at amortised costs, subject to impairment;
- loans and receivables measured at amortised cost, subject to impairment;
- available for sale assets measured at fair value with changes in fair value measured directly in equity; and
- financial liability measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments.

Share Based Payments

The Company currently does not recognise an expense for options issued to directors and employees. Under AASB 2 “Share Based Payments”, the Company will be required to recognise an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Part 20 – Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

Impairment of Assets

Under the Australian equivalent to IAS 36 “Impairment of Assets” the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the Company’s current accounting policy which determines recoverable amount of an asset on the basis of a change to cash flows that have not been discounted. Under the new policy it is likely that the impairment of assets will be recognised sooner and the amount of write downs will be greater.

Part 20 – Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited	<input type="checkbox"/>	The accounts have been subject to review	<input type="checkbox"/>
The accounts are in the process of being audited or subject to review	<input checked="" type="checkbox"/>	The accounts have not yet been audited or reviewed	<input type="checkbox"/>

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

Not applicable

If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

Not applicable