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# 2007 Financial Statements

# Directors' Report

Your Directors present their report on the consolidated entity referred to here after as the Group consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

## DIRECTORS

The following persons were Directors of Compumedics Ltd. during the whole of the financial year and up to the date of this report:

- David Burton
- Alan Anderson
- Prof. Graham Mitchell

Mr. Bruce Rathie was a Director from the beginning of the financial year until to his retirement on December 31, 2006.

## PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group were the research development, manufacture and distribution of medical diagnostic equipment. There have been no significant changes in the operation of the Group during the year.

## DIVIDENDS – COMPUMEDICS LIMITED

The Directors have not declared a dividend in the current financial year (2006:nil).

## REVIEW OF OPERATIONS

Information on the operations and financial position of the Group and its business strategies and prospects and a summary of consolidated revenue and results by business segments are set out below:

|                                                     | Sales Revenues  |                 | Segment Result  |                 |
|-----------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                                     | 2007<br>\$'000s | 2006<br>\$'000s | 2007<br>\$'000s | 2006<br>\$'000s |
| Sleep                                               | 15,317          | 14,823          | 166             | 1,050           |
| Brain Research                                      | 8,528           | 9,700           | 357             | (601)           |
| Neuroscience                                        | 8,614           | 8,706           | (716)           | (1,884)         |
| Neuro Medical Supplies                              | 4,191           | 4,355           | 913             | 945             |
| Less: Unallocated revenue less unallocated expenses | –               | –               | –               | (581)           |
| <b>Total</b>                                        | <b>36,650</b>   | <b>37,584</b>   | <b>720</b>      | <b>(1,071)</b>  |
| Unallocated income/expense                          |                 |                 | (597)           | (524)           |
| Tax expense                                         |                 |                 | –               | –               |
| Profit / (loss) after interest and tax              |                 |                 | 123             | (1,595)         |

### *Sleep*

Revenue in the sleep diagnostic business at \$15.3m was higher than the previous corresponding period. This was primarily due to improved sales in the US market as the Company has implemented and built on the changes to its sales and marketing teams in that market. The segment result in the sleep business was less than the previous year as a consequence of the additional investment into the US market. European sales improved year on year, whilst Asian sales were lower due to regulatory matters in China that are country specific and are expected to be resolved in the current year.

### *Brain Research*

The segment result for the Neuroscan business improved significantly over the previous years as a result of expense reductions and tighter management of the business. Revenues were 12% lower primarily due to lower sales in the Asian markets as sales were stable in the US and Europe and grew in Australian markets.

### *Neuroscience*

Revenues in the Neuroscience business were equivalent with last year at \$8.6m versus \$8.7m for the prior year, however the segment result was significantly improved due to expense reductions and tighter business control. The segment is still loosing money as the group is investing heavily in its new long term monitoring device which is due for release in the 2008 financial year.

### *NeuroMedical Supplies*

Revenue in the NeuroMedical supplies business fell by 4% to \$4.2m compared to the previous corresponding period. The supplies business represented 11% of total revenues for the year ended 30 June 2007, which was consistant with the previous year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors note that subsequent to the balance sheet date the Group has been offered and has accepted new banking facilities. The Group expects to settle with its new bankers during October 2007. Apart from the above at the date of this report the Directors are not aware of any other events occurring after the balance sheet date that would materially alter this report.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The focus for Compumedics as a Group will be on profitable growth of the Group, to further capitalise on the larger and growing customer base of the Group.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## INFORMATION ON DIRECTORS

**Mr David Burton**, Chairman and Chief Executive Officer, Age 48.

### *Experience and expertise*

Founder and major shareholder of Compumedics. Extensive experience in the development, design, manufacture and sale of medical devices and the development of the business

### *Other current directorships*

Intellirad Pty Ltd

D&DJ Burton Holdings Pty Ltd

Electro Molecular Pty Ltd

### *Former directorships in past 3 years*

None

### *Special responsibilities*

Chairman of the Board

Member of the remuneration committee

### *Interests in shares and options*

91,972,058 ordinary shares in Compumedics Limited

222,222 options over ordinary shares in Compumedics Limited

# Directors' Report

**Professor Graham Mitchell AO**, Independent Non-Executive Director, Age 66.

*Experience and expertise*

Substantial scientific and academic qualifications coupled with significant directorship experience

*Other current directorships*

Antisense Therapeutics Ltd

AVSP Pty Ltd, Antisense Therapeutics Pty Ltd

Geoffrey Gardner Dairy Foundation

*Former directorships in past 3 years*

None

*Special responsibilities*

Member of the Remuneration Committee

*Interests in shares and options*

None

**Mr Alan Anderson**, Non-Executive Director, Age 51.

*Experience and expertise*

Extensive legal experience particularly in intellectual property litigation in both defence and offence

*Other current directorships*

None

*Former directorships in past 3 years*

None

*Special responsibilities*

Chairman of the Remuneration Committee

Chairman of the Audit Committee

*Interests in shares and options*

89,655 ordinary shares in Compumedics Limited

#### Retirement, election and continuation in office of directors

Bruce Rathie resigned as a director on 31 December 2006.

### COMPANY SECRETARY

The company secretary is Mr. D. F. Lawson, Chartered Accountant. Mr. Lawson was appointed to the position of Company Secretary in 2000. Before joining Compumedics Limited he held various financial positions with another listed public company for 8 years.

### MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2007, and the numbers of meetings attended by each Director were:

|                               | Full meeting<br>of Directors |    | Meeting of Committees |   |              |   |
|-------------------------------|------------------------------|----|-----------------------|---|--------------|---|
|                               | A                            | B  | Audit                 |   | Remuneration |   |
|                               | A                            | B  | A                     | B | A            | B |
| David Burton                  | 11                           | 11 | –                     | – | 1            | 1 |
| Prof Graham Mitchell          | 9                            | 10 | –                     | – | 1            | 1 |
| Alan Anderson                 | 8                            | 10 | 3                     | 3 | 1            | 1 |
| Bruce Rathie (retired Dec 06) | 6                            | 6  | 2                     | 2 | –            | – |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

### REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation
- E. Additional information

The information provided under headings A–D includes remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Regulations 2001* which have not been audited.

#### A. Principles used to determine the nature and amount of remuneration (audited)

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfied the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

## Directors' Report

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendation on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

### Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibility of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also considered the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present for any discussions relating to determination of his own remuneration.

Non-executive directors do not receive share options.

### Directors' fees

The current base remuneration was last reviewed with effect from 1 July, 2006. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$250,000 total pool per annum.

The following fees have been applied:

|                                   | From 1 July 2006<br>to 30 June 2007 | From 1 July 2006<br>to 30 June 2007 |
|-----------------------------------|-------------------------------------|-------------------------------------|
|                                   | \$                                  | \$                                  |
| <i>Base fees</i>                  |                                     |                                     |
| Chairman                          | NIL                                 | NIL                                 |
| Other non-executive directors     | 30,000                              | 30,000                              |
| <i>Additional fees</i>            |                                     |                                     |
| Audit committee – chairman        | 5,000                               | 5,000                               |
| Audit committee –member           | 2,500                               | 2,500                               |
| Remuneration committee – chairman | 5,000                               | 5,000                               |
| Remuneration committee – member   | 2,500                               | 2,500                               |

### Retirement allowances for directors

Non-executive directors have not and will not be entitled to retirement allowances.

### Executive pay

The executive pay and reward framework has 5 components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the Compumedics Limited Employee Option Plan
- other remuneration such as superannuation, and
- long term equity linked incentive program specifically for the head of the Medical Innovations Division.

The combination of these comprises the executive's total remuneration.

### Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases fixed in any executive's contract.

### Benefits

Executives receive benefits including health insurance, car allowances and tax advisory services.

### Superannuation

Retirement benefits are currently limited to the statutory superannuation notes. Executives may elect to salary sacrifice to superannuation funds of their choice.

### Short-term incentives

Should the Group achieve a pre-determined profit target set by the remuneration committee a pool of short-term incentive (STI) is available to executives during the annual review. Using a profit target ensures variable award is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on organisation or business unit performance. For executives the maximum target bonus opportunity is 60% of total base salary.

Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, the minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2007, the KPIs linked to short term incentive plans were based on Group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the executive team.

Each year the remuneration committee considers the appropriate targets and key performance indicators (KPI's) to link the Short Term Incentive (STI) plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.

The short term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target annual payment is reviewed annually.

### Long-term incentives

The Company has instigated one long-term incentive program in the current year. At 30 June 2007 no other long-term incentive plans were in place for any other Director or key management personnel.

Medical Innovation Long Term Performance Plan (MI-LTPP)

The Group has formalised and gained approval at last year's annual general meeting for the MI-LTPP for the head of the Medical Innovations Division ("Division Head"), who is currently the Executive Chairman. The rationale of the MI-LTPP is to reward the Division Head where future commercial projects are met on the following criteria:

- 1. the future commercial project is based on innovative, novel and patentable technology;
- 2. the patented technology is supplementary to, but consistent with, the ongoing businesses of Compumedics Limited; and
- 3. there is significant risk attached to the development of the intellectual property or technology and the commercialisation thereof.

On the basis that these 3 criteria exist, and, as determined by the Remuneration Committee, a commercial project will be eligible for inclusion under the MI-LTPP. At 30 June 2007 the Remuneration Committee has approved several projects that are eligible under the MI-LTPP subject to the parameters discussed below.

The parameters of the MI-LTPP include that the Division Head will be entitled to an incremental 8% equity in any subsidiary entities of the Company that develop projects that meet all of criteria 1 to 3. The 8% equity will only deliver value to the Divisional Head where value is created for the whole company, in which case the Company receives 92% of the incremental value created.

The entitlement will be calculated after repayment of any initial costs of establishment or development costs outlaid by Compumedics. The Directors have sought and gained expert advice that the entitlements under the plan are remuneration for the purposes of accounting standards and are fair and reasonable, having regard to relevant circumstances.

There has been no equity awarded under the MI-LTPP to the Division Head during the year ended 30 June 2007.

Compumedics Employee Option Plan

Information on the Compumedics Option Plan is set out in Note 27 of the Financial Statements.

B. Details of remuneration (audited)

*Amounts of remuneration*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Compumedics Limited and the Compumedics Group are set out in the following tables.

### Key management personnel and other executives of Compumedics Limited.

The key management personnel of Compumedics Limited includes the directors as per pages 31 to 32 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- David Lawson
- Warwick Freeman
- Kerry Hubrick
- Andrew Kegle
- Paul Spooner

The key management personnel of the Group are the directors of Compumedics Limited as per pages 31 to 32 above and those executives that report directly to the Chief Executive Officer being:

- David Lawson
- Warwick Freeman
- Kerry Hubrick
- Andrew Kegle
- Anthony Curro
- Christoph Witte
- Paul Spooner
- Curtis Ponton
- Tom Lorick

### Key management personnel and other executives of Compumedics Limited.

| 2007                                               | Short-term employee benefits |                  |                             | Post-employment benefits |                           | Long-term benefits       | Share-based payment |             |
|----------------------------------------------------|------------------------------|------------------|-----------------------------|--------------------------|---------------------------|--------------------------|---------------------|-------------|
| Name and fees                                      | Cash salary and fees<br>\$   | Cash bonus<br>\$ | Non-monetary benefits<br>\$ | Super-annuation<br>\$    | Retirement benefits<br>\$ | Long service leave<br>\$ | Options<br>\$       | Total<br>\$ |
| <i>Non executive directors</i>                     |                              |                  |                             |                          |                           |                          |                     |             |
| Alan Anderson                                      | 38,750                       | —                | —                           | —                        | —                         | —                        | —                   | 38,750      |
| Prof. Graham Mitchell                              | 37,529                       | —                | —                           | 3,096                    | —                         | —                        | —                   | 40,625      |
| Bruce Rathie<br>(July 06 – Dec 06)                 | 17,500                       | —                | —                           | —                        | —                         | —                        | —                   | 17,500      |
| <b>Sub-total non executive directors</b>           | 93,779                       | —                | —                           | 3,096                    | —                         | —                        | —                   | 96,875      |
| <i>Executive directors</i>                         |                              |                  |                             |                          |                           |                          |                     |             |
| David Burton                                       | 341,550                      | 111,333          | —                           | —                        | —                         | —                        | —                   | 452,883     |
| <i>Other key management personnel</i>              |                              |                  |                             |                          |                           |                          |                     |             |
| David Lawson <sup>^</sup>                          | 188,370                      | —                | —                           | 16,556                   | —                         | 3,602                    | —                   | 208,528     |
| Warwick Freeman <sup>^</sup>                       | 194,304                      | —                | —                           | 14,507                   | —                         | 1,624                    | —                   | 210,435     |
| Kerry Hubrick <sup>^</sup>                         | 157,384                      | —                | —                           | 14,164                   | —                         | —                        | —                   | 171,548     |
| Andrew Kegle <sup>^</sup>                          | 130,000                      | 36,445           | —                           | 13,630                   | —                         | 4,034                    | —                   | 184,109     |
| Paul Spooner <sup>^</sup>                          | 196,098                      | 36,822           | —                           | —                        | —                         | —                        | —                   | 232,920     |
| <b>Total key management personnel compensation</b> | 1,301,485                    | 184,600          | —                           | 61,953                   | —                         | 9,260                    | —                   | 1,557,298   |

<sup>^</sup>denotes one of the 5 highest paid executives of the company, as required to be disclosed under *the Corporations Act 2001*.

## Directors' Report

Key management personnel and other executives of the group.

| 2007                                               | Short-term employee benefits |                  |                             | Post-employment benefits |                           | Long-term benefits       | Share-based payment |             |
|----------------------------------------------------|------------------------------|------------------|-----------------------------|--------------------------|---------------------------|--------------------------|---------------------|-------------|
| Name and fees                                      | Cash salary and fees<br>\$   | Cash bonus<br>\$ | Non-monetary benefits<br>\$ | Super-annuation<br>\$    | Retirement benefits<br>\$ | Long service leave<br>\$ | Options<br>\$       | Total<br>\$ |
| <i>Non executive directors</i>                     |                              |                  |                             |                          |                           |                          |                     |             |
| Alan Anderson                                      | 38,750                       | –                | –                           | –                        | –                         | –                        | –                   | 38,750      |
| Prof. Graham Mitchell                              | 37,529                       | –                | –                           | 3,096                    | –                         | –                        | –                   | 40,625      |
| Bruce Rathie<br>(July 06 – Dec 06)                 | 17,500                       | –                | –                           | –                        | –                         | –                        | –                   | 17,500      |
| <b>Sub-total non executive directors</b>           | 93,779                       | –                | –                           | 3,096                    | –                         | –                        | –                   | 96,875      |
| <i>Executive directors</i>                         |                              |                  |                             |                          |                           |                          |                     |             |
| David Burton                                       | 341,550                      | 111,333          | –                           | –                        | –                         | –                        | –                   | 452,883     |
| <i>Other key management personnel</i>              |                              |                  |                             |                          |                           |                          |                     |             |
| David Lawson                                       | 188,370                      | –                | –                           | 16,556                   | –                         | 3,602                    | –                   | 208,528     |
| Warwick Freeman                                    | 194,304                      | –                | –                           | 14,507                   | –                         | 1,624                    | –                   | 210,435     |
| Kerry Hubrick                                      | 157,384                      | –                | –                           | 14,164                   | –                         | –                        | –                   | 171,548     |
| Andrew Kegle                                       | 130,000                      | 36,445           | –                           | 13,630                   | –                         | 4,034                    | –                   | 184,109     |
| Anthony Curro^                                     | 263,669                      | 147,762          | –                           | –                        | –                         | –                        | –                   | 411,431     |
| Chistoph Witte^                                    | 212,409                      | –                | –                           | 24,942                   | –                         | –                        | –                   | 237,351     |
| Paul Spooner^                                      | 196,098                      | 36,822           | –                           | –                        | –                         | –                        | –                   | 232,920     |
| Curtis Ponton^                                     | 221,058                      | –                | –                           | –                        | –                         | –                        | –                   | 221,058     |
| Tom Lorick^                                        | 188,201                      | 21,703           | –                           | –                        | –                         | –                        | –                   | 209,904     |
| <b>Total key management personnel compensation</b> | 2,186,822                    | 354,065          | –                           | 86,895                   | –                         | 9,260                    | –                   | 2,637,042   |

^denotes one of the 5 highest paid executives of the group, as required to be disclosed under *the Corporations Act 2001*.

Key management personnel and other executives of the group.

| 2006                                               | Short-term employee benefits |                  |                             | Post-employment benefits |                           | Long-term benefits       | Share-based payment |             |
|----------------------------------------------------|------------------------------|------------------|-----------------------------|--------------------------|---------------------------|--------------------------|---------------------|-------------|
| Name and fees                                      | Cash salary and fees<br>\$   | Cash bonus<br>\$ | Non-monetary benefits<br>\$ | Super-annuation<br>\$    | Retirement benefits<br>\$ | Long service leave<br>\$ | Options<br>\$       | Total<br>\$ |
| <i>Non executive directors</i>                     |                              |                  |                             |                          |                           |                          |                     |             |
| Koichiro Koike (July05–Sept 05)                    | 45,000                       | –                | –                           | –                        | –                         | –                        | –                   | 45,000      |
| Alan Anderson                                      | 37,500                       | –                | –                           | –                        | –                         | –                        | –                   | 37,500      |
| Prof. Graham Mitchell                              | 29,575                       | –                | –                           | 2,925                    | –                         | –                        | –                   | 32,500      |
| Bruce Rathie                                       | 35,000                       | –                | –                           | –                        | –                         | –                        | –                   | 35,000      |
| <b>Sub-total non executive directors</b>           | 147,075                      | –                | –                           | 2,925                    | –                         | –                        | –                   | 150,000     |
| <i>Executive directors</i>                         |                              |                  |                             |                          |                           |                          |                     |             |
| David Burton                                       | 341,550                      | 33,000           | –                           | –                        | –                         |                          | –                   | 374,550     |
| <i>Other key management personnel</i>              |                              |                  |                             |                          |                           |                          |                     |             |
| Warwick Freeman                                    | 199,755                      | –                | –                           | 14,998                   | –                         | 5,541                    | –                   | 220,294     |
| David Lawson                                       | 188,370                      | –                | –                           | 16,380                   | –                         | 12,852                   | –                   | 217,602     |
| Christoph Witte^                                   | 211,839                      | –                | –                           | 24,414                   | –                         | –                        | –                   | 236,253     |
| Anothony Curro^                                    | 264,869                      | 108,632          | –                           | –                        | –                         | –                        | –                   | 373,501     |
| Tom Lorick^                                        | 215,798                      | –                | –                           | –                        | –                         | –                        | –                   | 215,798     |
| Curtis Ponton^                                     | 234,342                      | –                | –                           | –                        | –                         | –                        | –                   | 234,342     |
| Paul Spooner^                                      | 194,950                      | 36,563           | –                           | –                        | –                         | –                        | –                   | 231,513     |
| Tim Gresham                                        | 96,874                       | 44,238           | –                           | 12,700                   | –                         | –                        | –                   | 153,812     |
| <b>Total key management personnel compensation</b> | 2,095,422                    | 222,433          | –                           | 71,417                   | –                         | 18,393                   | –                   | 2,407,665   |

^denotes one of the 5 highest paid executives of the group, as required to be disclosed under *The Corporations Act 2001*.

## Directors' Report

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name                                                         | Fixed Remuneration |      | At Risk STI |      | At Risk LTI |      |
|--------------------------------------------------------------|--------------------|------|-------------|------|-------------|------|
|                                                              | 2007               | 2006 | 2007        | 2006 | 2007        | 2006 |
| <i>Directors of Compumedics Limited</i>                      |                    |      |             |      |             |      |
| David Burton                                                 | 75%                | 91%  | 25%         | 9%   | –           | –    |
| Alan Anderson                                                | 100%               | 100% | –           | –    | –           | –    |
| Prof Graham Mitchell                                         | 100%               | 100% | –           | –    | –           | –    |
| <i>Other key management personnel of Compumedics Limited</i> |                    |      |             |      |             |      |
| David Lawson                                                 | 100%               | 100% | –           | –    | –           | –    |
| Warwick Freeman                                              | 100%               | 100% | –           | –    | –           | –    |
| Kerry Hubrick                                                | 100%               | 100% | –           | –    | –           | –    |
| Andrew Kegel                                                 | 80%                | 80%  | 20%         | 20%  | –           | –    |
| Paul Spooner                                                 | 69%                | 69%  | 31%         | 31%  | –           | –    |
| <i>Other key management personnel of the Group</i>           |                    |      |             |      |             |      |
| Anthony Curro                                                | 63%                | 71%  | 37%         | 19%  | –           | –    |
| Christoph Witte                                              | 100%               | 100% | –           | –    | –           | –    |
| Curtis Ponton                                                | 100%               | 100% | –           | –    | –           | –    |
| Tom Lorick                                                   | 89%                | 100% | 11%         | –    | –           | –    |

### C. Service agreements (audited)

On appointment to the Board, all non executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office director.

Remuneration and other terms of employment for the Chief Financial Officer and the other key management personnel are also formalized in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and participation remuneration are set out below.

All contracts with executives may be terminated earlier by either party, subject to termination payments as detailed below.

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2007 of AUD341,550, to be reviewed annually by the remuneration committee. David Burton is also entitled to participate in the Medical Innovation Long Term Performance Plan as approved at last year's Annual General Meeting
- Performance bonus – AUD111,333 was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 1 July 2006
- David Burton does not have a formal service agreement

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2007 of AUD204,928, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD208,811, to be reviewed annually by the remuneration committee
- Car allowance of \$33,112
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Kerry Hubrick, *Legal Counsel and Patent Attorney*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD171,548, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Andrew Kegle, *Director Australia and New Zealand*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD143,630, to be reviewed annually by the remuneration committee
- Performance bonus – AUD36,445, was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Anthony Curro, *Vice President, Sales, Americas*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD206,954, to be reviewed annually by the CEO
- Performance bonus – USD115,978, was paid as a performance bonus on achievement of specific sales goals during the financial year
- Review of last salary – 1 July 2007
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Christoph Witte, *Managing Director, DWL*

- Base salary inclusive of superannuation, for the year ended 30 June 2007 of EUR135,480, to be reviewed annually by the remuneration committee
- Car Allowance of EUR7,080
- Christoph Witte's service agreement commenced 1 September 2004 with a 2 year fixed notice period from 1 September 2005, after which the notice period reduces proportionately to six months at 1 September 2007

Paul Spooner, *Business Director, Europe and the Middle East*

- Base salary for the year ended 30 June 2007 of AUD196,098, to be reviewed annually by the CEO
- Performance bonus – AUD36,822, was paid as a performance bonus on achievement of specific sales goals during the financial year
- Review of last salary – July 2007
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Curtis Ponton, *Vice President, Chief Scientist Neuroscan*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD173,508, to be reviewed annually by the CEO
- Review of last salary – July 2007
- The service agreement takes the form of an actual agreement which incorporates Compumedics conditions of employment, and other conditions and is for 3 years
- Payment of a termination benefit on early termination of the agreement by the company, other than for gross misconduct, equal to base salary for 6 months

Tom Lorick, *Vice President, Marketing, Americas*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD147,719, to be reviewed annually by the CEO
- Review of last salary – July 2007
- Performance bonus – USD17,305, was paid as a performance bonus on achievement of specific sales goals during the financial year
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

## Directors' Report

### D. Share-based compensation (audited)

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan.

Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests and is exercisable on the following basis:

- (i) 20% of each new tranche vests and is exercisable at the 1<sup>st</sup> anniversary date of the grant
- (ii) 30% of each new tranche vests and is exercisable at the 2<sup>nd</sup> anniversary date of the grant
- (iii) 50% of each new tranche vests and is exercisable at the 3<sup>rd</sup> anniversary date of the grant

When exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

The Company issued 70,423 new shares to D&DJ Burton Holdings Pty Ltd in lieu of a bonus payment received as options in October 2004.

The Company did not have any other share based payments in the full year ended 30 June 2007.

Un-issued ordinary shares in Compumedics Limited under option at the date of this report held by directors are as follows:

| Grant date  | Expiry date | Exercise price | Value per option at grant date | Date exercisable |
|-------------|-------------|----------------|--------------------------------|------------------|
| 20 Dec 2002 | 20 Dec 2007 | \$0.01         | \$0.01                         | At grant date    |
| 11 Mar 2004 | 11 Apr 2009 | \$0.31         | \$0.31                         | At grant date    |

### E. Additional information (unaudited)

For cash bonuses included in the tables set out on pages 37 and 39 the percentage of the available bonus that was paid in the financial year and the percentage that was forfeited because that person did not meet the service and performance criteria is set out below.

| Name          | Paid | Forfeited |
|---------------|------|-----------|
| David Burton  | 100% | —         |
| Andrew Kagle  | 100% | —         |
| Anthony Curro | 100% | —         |
| Paul Spooner  | 42%  | 58%       |

### Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in Note 28 to the financial statements.

## SHARES UNDER OPTION

Unissued ordinary shares of Compumedics Limited under option at the date of this report are as follows:

| Date options granted                             | Number under option | Issue Price of Shares (\$) | Expiry Date |
|--------------------------------------------------|---------------------|----------------------------|-------------|
| New Issues for the year ended 30 June 2002       | 220,423             | 0.01 to 0.95               | Various     |
| (adjusted for retirements)                       | (120,000)           | 0.95                       | 1 Mar 2006  |
| New Issues for the year ended 30 June 2003       | 222,222             | 0.01                       | 24 Dec 2007 |
| New Issues for the year ended 30 June 2004       | 50,000              | 0.43                       | 8 Dec 2008  |
| (adjusted for retirements)                       | (50,000)            | 0.43                       | 8 Dec 2008  |
| New Issues for the year ended 30 June 2004       | 50,000              | 0.31                       | 11 Apr 2009 |
| New Issues for the year ended 30 June 2005       | —                   | —                          | —           |
| New Issues for the year ended 30 June 2006       | —                   | —                          | —           |
| New Issues for the year ended 30 June 2007       | —                   | —                          | —           |
| (adjusted for retirements)                       | (20,000)            | 0.55                       | 6 Mar 2007  |
| (adjusted for retirements)                       | (10,000)            | 0.60                       | 1 Aug 2006  |
| Options exercised in the year ended 30 June 2007 | (70,423)            | 0.01                       | 31 Oct 2006 |
| <b>Total</b>                                     | <b>272,222</b>      |                            |             |

There were no new options issued during the year.

## INSURANCE OF OFFICERS

During the financial year, Compumedics Limited paid premiums of \$27,412 to insure the Directors and Secretary of the Company and its Australian-based controlled entities, and the Executives and other senior managers of each of the divisions of the Group.

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

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

## Directors' Report

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|                                                                                                   | Consolidated   |                |
|---------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                   | 2007<br>\$     | 2006<br>\$     |
| <b>1. Audit services</b>                                                                          |                |                |
| PricewaterhouseCoopers Australian firm:                                                           |                |                |
| Audit and review of financial reports and other audit work under <i>the Corporations Act 2001</i> | 160,000        | 222,079        |
| Related practices of PricewaterhouseCoopers Australian firm                                       | 29,958         | 54,190         |
| <b>Total remuneration for audit services</b>                                                      | <b>189,958</b> | <b>276,269</b> |
| <b>2. Non-audit services</b>                                                                      |                |                |
| Taxation services                                                                                 |                |                |
| Related practices of PricewaterhouseCoopers Australian firm                                       |                |                |
| Tax compliance services                                                                           | 12,486         | 14,037         |
| <b>Total remuneration for taxation services</b>                                                   | <b>12,486</b>  | <b>14,037</b>  |
| <b>Total remuneration for non-audit services</b>                                                  | <b>12,486</b>  | <b>14,037</b>  |

### AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of *the Corporations Act 2001* is set out on page 45

### ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of *the Corporations Act 2001*.

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



**D. Burton**  
Director

Melbourne  
30 September 2007

## Auditor's Independence Declaration



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331L  
MELBOURNE VIC 3001  
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Website: [www.pwc.com/au](http://www.pwc.com/au)  
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Facsimile +61 3 8603 1999  
[www.pwc.com/au](http://www.pwc.com/au)

### Auditor's Independence Declaration

As lead auditor for the audit of Compumedics Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of *the Corporations Act 2001* in relation to the audit; and
  - b) no contraventions of any applicable code of professional conduct in relation to the audit.
- This declaration is in respect of Compumedics Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A. Linschoten', is written over a light blue background.

Anton Linschoten  
Partner  
PricewaterhouseCoopers

Melbourne  
30 September 2007

# Corporate Governance Statement

Compumedics Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The relationship between the Board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executives. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

## THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles of the Board charter. The charter details the Board's composition and responsibilities. This charter is currently being reviewed and will be formally adopted by the Board as part of the current review process, which is expected to be completed by 30 June, 2008.

### Board composition

The charter states:

- the Board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- the Board recognises the underlying principal of independent directors but believes at this point in time the current directors, despite not being independent, bring a level of skill and experience to the Board combined with an intimate knowledge of the business that might otherwise not be available to it
- the Chairman is elected by the full Board
- the company is to maintain a mix of directors on the board from different backgrounds with complimentary skills and experience
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

### Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approval of the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring organisational performance and the achievement of the Group's strategic goals and objectives; compliance with the Company's Code of Conduct
- progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives; enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

### Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office are set out in the directors' report under the heading "Information on directors". There are two non-executive directors, one of whom is deemed independent under the principles set out below, and one executive director at the date of signing the director's report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

#### Directors' independence

The Board is in the process of adopting specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group.
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The Board currently acknowledges that having a combined Chairman and CEO (Executive Chairman) is not in keeping with current thinking on good corporate governance. However, considering the skills and experience of the current Executive Chairman and the needs of the Company at this point in time in its development, the Board considers the current arrangement to be in the best interest of the Company and its shareholders.

At the date of this report Prof. Graham Mitchell, a director of the company, is considered independent according to the governance provisions laid down by the Australian Stock Exchange.

#### Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election subject to the following limitations:

- no non-executive director may serve more than four terms (twelve years), and
- on attaining the age of 70 years a director will retire, by agreement, at the next AGM and will not seek re-election.

#### Chairman and Chief Executive Officer (Executive Chairman)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

At this point in time these roles are carried out by the same individual, Mr. David Burton. Mr. Burton is also founder and the majority shareholder of Compumedics.

# Corporate Governance Statement

## Commitment

The Board held eleven Board meetings.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed in the Directors' Report page 33.

Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the board. No appointments of this nature were accepted during the year ended 30 June 2007.

The commitments of non-executive directors are considered by the nomination committee prior to the director's appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

## Conflicts of interest

Entities connected with Mr Alan Anderson had business dealings with the consolidated entity during the year, as described in note 28 to the financial statements. In accordance with the board charter, the directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition those directors did not receive any papers from the Group pertaining to those dealings.

## Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

## Performance assessment

The Chairman, with the participation of the Board members, undertakes a semi-annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The last assessment was undertaken during September 2004.

## Corporate reporting

The CEO and CFO have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

## Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration and audit committees. The audit committee is comprised entirely of non-executive directors whilst the remuneration committee includes the CEO. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee is developing its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees currently being developed.

Due to the size of the Company a nomination committee has not been established at this time.

## REMUNERATION COMMITTEE

The remuneration committee consists of the following non-executive directors:

A Anderson (Chairman)

G Mitchell

and the following executive director:

D Burton.

Details of these directors' attendance at remuneration committee meetings are set out in the Directors' report page 33.

The remuneration committee operates in accordance with its draft charter. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular briefings from external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the Directors' report and note 23 to the financial statements.

The committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

## AUDIT COMMITTEE

The audit committee consists of the following non-executive directors:

B Rathie (Chairman retired December 31, 2006)

A Anderson (Chairman appointed January 1, 2007)

Details of these directors' qualifications and attendance at audit committee meetings are set out in the Directors' report pages 31 to 33.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee operates in accordance with a charter that has been formally adopted. The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- Report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management, and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board
- reviews the processes the CEO and CFO have in place to support their certifications to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

## EXTERNAL AUDITORS

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers were appointed as the external auditors in 1996. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2005.

It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## RISK ASSESSMENT AND MANAGEMENT

The Board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

## CODE OF CONDUCT

The Company is developing a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code will be regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is only permitted during the thirty day period following the release of the half-yearly and annual financial results to the market. Any transactions undertaken must be notified to the Company Secretary in advance.

The Code and the Company's trading policy is discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company's trading policy to report these through the Chief Financial Officer or the Chief Executive Officer.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

## CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's web site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

All shareholders receive a copy of the Company's annual and regular investor newsletter.

|                                                                    |             |
|--------------------------------------------------------------------|-------------|
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This financial report covers both Compumedics Limited as an individual entity and the consolidated entity consisting of Compumedics Limited and its subsidiaries. The financial report is presented in the Australian currency.

Compumedics Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:  
Compumedics Limited  
30–40 Flockhart Street  
Abbotsford. Vic. 3067  
Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 30 to 31 of the Directors' report, which are not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2007. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our investors on our website: [www.compumedics.com](http://www.compumedics.com)

# Income Statements

FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                 | Notes | Consolidated   |                | Parent         |                |
|-------------------------------------------------------------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                                                                                 |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Revenue from continuing operations                                                              | 3     | 36,734         | 37,703         | 17,866         | 21,047         |
| Other income                                                                                    | 4     | 137            | 1,173          | 77             | 1,079          |
| Cost of sales                                                                                   |       | (15,384)       | (18,024)       | (6,952)        | (9,765)        |
| Administration                                                                                  |       | (4,277)        | (4,796)        | (1,469)        | (2,733)        |
| Sales & Marketing                                                                               |       | (10,573)       | (9,973)        | (6,836)        | (7,234)        |
| Research & Development                                                                          |       | (4,600)        | (7,312)        | (1,906)        | (4,795)        |
| Finance costs                                                                                   | 5     | (871)          | (643)          | (729)          | (611)          |
| Net foreign exchange gain/(loss)                                                                | 5     | (1,043)        | 277            | (1,025)        | 483            |
| Profit / (Loss) before income tax expense                                                       |       | 123            | (1,595)        | (974)          | (2,529)        |
| Income tax expense                                                                              | 6     | –              | –              | –              | –              |
| Profit / (Loss) after income tax expense                                                        |       | 123            | (1,595)        | (974)          | (2,529)        |
| Profit / (Loss) attributable to members of Compumedics Limited                                  |       | 123            | (1,595)        | (974)          | (2,529)        |
| <b>Earnings per share for profit attributable to the ordinary equity holders of the company</b> |       | <b>Cents</b>   | <b>Cents</b>   |                |                |
| Basic earnings per share                                                                        | 32    | 0.1            | (1.1)          |                |                |
| Diluted earnings per share                                                                      | 32    | 0.1            | (1.0)          |                |                |

The above income statements should be read in conjunction with the accompanying notes.

## Balance Sheets

AS AT 30 JUNE 2007

|                               | Notes | Consolidated   |                | Parent         |                |
|-------------------------------|-------|----------------|----------------|----------------|----------------|
|                               |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| CURRENT ASSETS                |       |                |                |                |                |
| Cash and cash equivalents     | 7     | 363            | 3,319          | 77             | 2,845          |
| Trade and other receivables   | 8     | 12,464         | 13,112         | 5,952          | 6,330          |
| Inventories                   | 9     | 4,991          | 4,826          | 2,964          | 2,669          |
| TOTAL CURRENT ASSETS          |       | 17,818         | 21,257         | 8,993          | 11,844         |
| NON-CURRENT ASSETS            |       |                |                |                |                |
| Receivables                   | 10    | –              | –              | 3,733          | 5,245          |
| Investments in subsidiaries   | 11    | –              | –              | –              | 435            |
| Property, plant and equipment | 12    | 613            | 918            | 371            | 540            |
| Intangible assets             | 13    | 820            | –              | 820            | –              |
| TOTAL NON-CURRENT ASSETS      |       | 1,433          | 918            | 4,924          | 6,220          |
| TOTAL ASSETS                  |       | 19,251         | 22,175         | 13,917         | 18,064         |
| CURRENT LIABILITIES           |       |                |                |                |                |
| Trade and other payables      | 14    | 7,091          | 7,128          | 3,661          | 4,153          |
| Borrowings                    | 15    | 3,396          | 3,196          | 2,478          | 2,280          |
| Tax liabilities               | 16    | –              | 72             | –              | –              |
| Deferred tax liabilities      | 6     | 73             | –              | 73             | –              |
| Provisions                    | 17    | 697            | 640            | 559            | 509            |
| Deferred revenue              | 18    | 1,059          | 1,115          | 226            | 214            |
| TOTAL CURRENT LIABILITIES     |       | 12,318         | 12,151         | 6,999          | 7,156          |
| NON-CURRENT LIABILITIES       |       |                |                |                |                |
| Borrowings                    | 19    | 7              | 3,247          | 7              | 3,247          |
| Provisions                    | 20    | 12             | 60             | 12             | 60             |
| TOTAL NON-CURRENT LIABILITIES |       | 19             | 3,307          | 19             | 3,307          |
| TOTAL LIABILITIES             |       | 12,337         | 15,458         | 7,018          | 10,463         |
| NET ASSETS                    |       | 6,914          | 6,717          | 6,899          | 7,601          |
| EQUITY                        |       |                |                |                |                |
| Contributed equity            | 21    | 29,492         | 29,020         | 29,492         | 29,020         |
| Reserve                       | 22    | (783)          | (385)          | (200)          | –              |
| Accumulated losses            | 22    | (21,795)       | (21,918)       | (22,393)       | (21,419)       |
| TOTAL EQUITY                  |       | 6,914          | 6,717          | 6,899          | 7,601          |

The above balance sheets should be read in conjunction with the accompanying notes.

## Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

|                                                                             | Consolidated   |                | Parent         |                |
|-----------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                             | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Total equity at the beginning of the financial year                         | 6,717          | 8,139          | 7,601          | 10,130         |
| Exchange differences on translation of foreign operations                   | (198)          | 173            | –              | –              |
| <b>Profit/(Loss) recognised directly in equity</b>                          | <b>(198)</b>   | <b>173</b>     | <b>–</b>       | <b>–</b>       |
| Profit/(Loss) for the full year                                             | 123            | (1,595)        | (974)          | (2,529)        |
| Total recognised income and expenses for year                               | (75)           | (1,422)        | (974)          | (2,529)        |
| Transactions with equity holders in their capacity as equity holders        |                |                |                |                |
| • Value of conversion rights on issue of RCNs                               | 345            | –              | 345            | –              |
| • Deferred tax liability attributable to conversion rights on issue of RCNs | (73)           | –              | (73)           | –              |
| <b>Total equity at the end of the financial year</b>                        | <b>6,914</b>   | <b>6,717</b>   | <b>6,899</b>   | <b>7,601</b>   |

The above statements of changes in equity should be read in conjunction with the accompanying notes.

## Cash flow statements

FOR THE YEAR ENDED 30 JUNE 2007

|                                                                               | Notes | Consolidated   |                | Parent         |                |
|-------------------------------------------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                                                               |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| CASH FLOW FROM OPERATING ACTIVITIES                                           |       |                |                |                |                |
| Receipts from customers<br>(inclusive of goods and services tax)              |       | 37,178         | 36,938         | 17,927         | 18,836         |
| Payments to suppliers and employees<br>(inclusive of goods and services tax)  |       | (35,762)       | (39,503)       | (18,883)       | (19,589)       |
| Interest and other costs of finance paid                                      |       | (705)          | (643)          | (705)          | (643)          |
| Interest received                                                             |       | 84             | 119            | 84             | 119            |
| Receipts from other income                                                    |       | 52             | –              | 52             | –              |
| Receipts from legal settlement net of associated expenses                     |       | –              | 1,711          | –              | 1,711          |
| Net cash inflow (outflow) from operating activities                           | 31    | 847            | (1,378)        | (1,525)        | 434            |
| CASH FLOW FROM INVESTING ACTIVITIES                                           |       |                |                |                |                |
| Payments for property, plant and equipment                                    |       | (160)          | (112)          | (135)          | (52)           |
| Payment for intangible assets                                                 |       | (797)          | –              | (797)          | –              |
| Net cash inflow (outflow) from investing activities                           |       | (957)          | (112)          | (933)          | (52)           |
| CASH FLOWS FROM FINANCING ACTIVITIES                                          |       |                |                |                |                |
| Proceeds from borrowings                                                      |       | –              | 371            | –              | –              |
| Proceeds from borrowings – with related parties                               |       | –              | 1,000          | –              | 1,000          |
| Intercompany transfers from Compumedics Limited<br>to Compumedics USA Ltd     |       | –              | –              | –              | (596)          |
| Intercompany transfer from Compumedics Limited<br>to Compumedics Germany GmbH |       | –              | –              | (666)          | (1,150)        |
| Intercompany transfers to Compumedics Limited<br>from Compumedics USA Ltd     |       | –              | –              | 2,001          | 699            |
| Intercompany transfer from Compumedics Germany GmbH<br>to Compumedics Limited |       | –              | –              | 1,101          | –              |
| Payments of finance leases                                                    |       | (103)          | (183)          | (103)          | (183)          |
| Repayment of borrowings                                                       |       | (2,714)        | (710)          | (2,662)        | (710)          |
| Net cash inflow (outflow) from financing activities                           |       | (2,817)        | 478            | (329)          | (940)          |
| Net increase (decrease) in cash and cash equivalents                          |       | (2,927)        | (1,012)        | (2,787)        | (558)          |
| Cash and cash equivalents at the<br>beginning of the year                     | 7     | 2,354          | 3,328          | 2,845          | 3,365          |
| Effects of exchange rate changes on cash<br>and cash equivalents              |       | 19             | 38             | 19             | 38             |
| Cash and cash equivalents at the end<br>of the financial year                 | 7     | (555)          | 2,354          | 77             | 2,845          |

The above cash flow statements should be read in conjunction with the accompanying notes.

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## NOTE 1.

### 1A Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial report includes separate financial statements for Compumedics Limited as an individual entity and the consolidated entity consisting of Compumedics Limited and its subsidiaries.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and *the Corporations Act 2001*.

##### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Compumedics Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to the parent entities in respect of certain disclosure requirements contained in AASB132 *Financial instruments: Disclosure and Presentation*.

##### *Early adoption of Standards*

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 Presentation of Financial Statements (issued Oct 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

##### *Historical Cost Convention*

These financial statements have been prepared under the historical cost convention, as modified by the reevaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

##### *Critical Accounting Estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1C.

##### *Going Concern*

During the full year ended 30 June 2007 the consolidated entity (Compumedics) returned to an operating profit of \$0.1m and positive cash flows from operations of \$0.8m. However repayment of borrowings of \$2.7m contributed to a net decrease of cash of \$2.9 million during the full year ended 30 June 2007.

The past financial year has seen the initial evidence of an aggressive restructure across the sales and marketing functions in each geographic territory of the business conducted in late 2005 and during 2006. This was combined with further restructuring of the operational facets of the business and the reduction of cash expenses. These cost reductions have largely been the result of head count reductions which have been implemented across all parts of the business.

The focus on cost reductions has continued during the financial year ended 30 June 2007.

The Directors of Compumedics will continue to maintain vigorous control of its costs to give the company the best opportunity of continuing to generate profits without jeopardizing the sustainability of the business over the longer term.

The Directors note that the Group has been offered and accepted new banking facilities (The Directors expect to complete the transition during October 2007).

The Directors note that the decision to change banks was a direct consequence of an untenable and uncommercial arrangement with its existing bank both in terms of costs of financing and debt repayment requirements, particularly in light of the significant financial turnaround achieved to date by the Company. One outcome of these arrangements was that the Company did not achieve what, the directors believe, was an un-realistic interest rate cover ratio for the year ended June 30. All other covenants tested throughout the financial year were achieved and all debt repayment obligations were met.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

The Directors also continue to progress a number of additional strategies in order to potentially raise capital or reduce costs further should the need arise.

The Directors will continue to focus efforts on the earnings turnaround that was evident during the financial year ended 30 June 2007. The turnaround in profitability and cash generation remains very dependant on margin improvement and also Compumedics' ability to reduce debtor days through greater compliance with sales terms.

The Directors believe Compumedics will be successful in the above activities and accordingly have prepared the financial report on the basis that Compumedics will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report.

## (b) Principles of consolidation

### (i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("Company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or conveyable are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost, less any provision for diminution in value. Investments in subsidiaries are accounted for at cost in the individual finance statements of Compumedics Limited.

## (c) Segment reporting

A business segment is identified for a group of assets and operations, engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## (d) Foreign currency translation

### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Compumedics Limited's functional and presentation currency.

### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

### (iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or

borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates, duties and taxes paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows

*i.* Sale of Goods. This is typically for the sale of diagnostic systems, including hardware and software.

Revenue is recognised on the sale of goods when ownership of the asset sold has been transferred so that risks and reward have passed to the buyer.

*ii.* Services. This is typically for technical support contracts post the sale and installation of the diagnostic systems.

Revenue is recognised on the sale of services on a straight line basis over the life of the contract for which the Group has an obligation to perform services pursuant to the contract.

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Compumedics Limited and its wholly-owned Australian controlled entities have elected not to implement the tax consolidation legislation.

**(g) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 26).

(h) **Business Combinations**

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) **Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units), which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) **Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) **Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured and at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement no more than 45 days from shipment of goods. Typically these activities occur within 60 days of the shipment of goods.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

(l) **Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## (m) Investments and other financial assets

### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### (i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### (ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (notes 8 and 10).

#### (iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### (iv) *Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

### Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

### Subsequent measurement

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non monetary securities classified as available for sale are recognised in equity.

### Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

### Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

#### (n) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost revalued amount, net of their residual values, over their estimated useful lives. The expected useful lives for all categories of property, plant and equipment are between 2 and 6 years.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

#### (o) Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (note 2).

##### (ii) Trademarks, Intellectual Property and other technical know how acquired

Trademarks, licenses, intellectual property and technical know how have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight line method to allocate the cost of these tangible assets over their estimated useful lives, which is approximately 4 years.

##### (iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which is 5 years.

#### (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as pre-payments and amortised on a straight-line basis over the term of the facility.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) **Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(s) **Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Borrowing costs include:

- Interest on bank overdrafts and short-term and long-term borrowings,
- Finance lease charges,
- Certain exchange differences arising from foreign currency borrowings,
- Interest payable on the RCN's issued to D&DJ Burton Holdings Pty Ltd, and
- Bank charges on borrowing facilities.

(t) **Provisions**

Provisions for legal claims and service warranties are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## (u) Employee Benefits

### (i) *Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### (ii) *Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iii) *Share Based Payments*

Share-based compensation benefits are provided to employees via the Compumedics Employee Option Plan Information relating to this scheme is set out in note 27.

The fair value of options granted under the Compumedics Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

### (v) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

## (v) Earnings per share

### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## (w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

## (x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(y) **New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005–10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005–10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

(ii) *AASB–I 10 Interim Financial Reporting and Impairment*

AASB–I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

(iii) *AASB 8 Operating Segments and AASB 2007–3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007–3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(z) **Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(aa) **Rounding of amounts**

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## 1B Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by a central Accounting department.

### (a) Market risk

#### *(i) Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar and the Euro.

The Group does not use derivative financial instruments.

The Group in establishing its budget for any given future period has to make an estimate of what the exchange rate between the US and the Australian dollar will be and also what the exchange rate between the European Euro and the Australian dollar will be.

These exchange rate estimates are required so as the US and European businesses can be forecast in Australian dollars at a consolidated Group level.

As the Group cannot control the markets that set these exchange rates it is highly unlikely the Company will forecast accurately what the actual exchange rates would be in any given period.

As a consequence the Group is subject to variations in its financial performance dependent upon the final USD/AUD and EUR/AUD exchange rates in any given period.

The Group's financial performance in any given period is affected in two ways by changes in the USD/AUD and EUR/AUD exchange rates. Firstly the straight conversion of the US business and the European business from US dollars and the Euro into Australian dollars and secondly the conversion of the parent company's investment in both these businesses.

A 1 cent rise or fall in the USD/AUD exchange rate has an approximate impact on revenues for the year ended 30 June 2007 of \$0.2m on conversion of the US business. The profit after tax line impact is negligible. Similarly for the European business a 1 cent rise or fall in the EUR/AUD exchange rate has an approximate impact on revenues for the year ended 30 June 2007 of \$0.1m and at the profit after tax line the impact is negligible.

#### *(ii) Price risk*

The Group is not exposed to equity securities price risk nor commodity price risk.

#### *(iii) Fair value interest rate risk*

Refer to (d) below.

### (b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one financial institution.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group is considering its alternatives in this regard.

### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. All borrowings during the year are at variable rates.

## 1C Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (b) Deferred revenues

In calculating the Group's deferred revenues at any point in time the Group makes a judgment regarding the typical costs the Group will incur in future periods for sales of goods that it has booked as revenue in the current and past periods.

The Group reviews its current cost for installation and training as a percentage of current revenues in determining an appropriate future cost for installation and training obligations that are still to be performed. Based on current installation and training costs as an estimate for future installation and training costs 12% (deferral rate) of the total dollar value of all current sales where a future installation and training obligation exists is deferred until such time as the future installation and training the obligations has been extinguished.

Should the future costs of installation and training rise rapidly this could give rise to percentage rate used to defer revenue increasing. For example in the past a deferral rate of 20% has existed, whereby all current revenues with a future installation and training obligation had 20% of the total dollar value of the sale deferred. Had this deferral rate been used for calculating the deferred revenue for the year ended 30 June 2007 the impact would have been to reduce revenues by \$0.2m and increase the loss by \$0.2m.

#### (c) Foreign exchange

The parent entity has a current inter company account receivable with the US business part of which is considered an investment in the US legal entity and part of which is considered a receivable that can be collected upon. Any exchange gain or loss resulting from the translation into Australian Dollars of the investment component of the inter company account is taken to an equity reserve. Any exchange gain or loss resulting from the translation of the component of the inter company receivable that is considered recoverable is taken to the income statement. Therefore a 1 cent rise or fall in the USD/AUD exchange rate on this component of the year end balance at 30 June 2007 would have a profit after tax impact of \$0.1m in the year ended 30 June 2007.

The parent entity likewise carries part of its inter company account with DWL as an investment and part as a receivable. The foreign exchange impact is negligible on this account.

#### (d) Inventory

At any given point the Group has an obligation to carry its inventory at the lower of cost and net realizable value. In determining the Group's compliance with this requirement the Group reviews its slow moving inventory at December 31 and June 30 each year. As a consequence of this review the financial provision for slow moving inventory is adjusted with a resulting income statement impact.

In determining the appropriateness of the slow moving inventory provision the Group makes estimates about its future use of certain product lines and also the ultimate recoverability and usefulness of the inventory on hand.

Given the leading edge technology nature of the Group this may mean that inventory that was previously considered usable and therefore of value may quickly become redundant, obsolete or simply no longer usable.

#### (e) Trade Receivables and others

Similarly for trade receivables the Group must make an estimate at any given point in time as to the recoverability of the receivables it has on its ledger and a provision for doubtful debt is created based on this estimate.

The estimate is based on many factors including:

- The Group's knowledge of its customers and the likelihood of there being any issue with payment.
- The Group's prior good history in relation to collecting receivables; and
- The territory where the receivable is owed from.

Using this information the Group makes an assessment of the recoverability of its receivables.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 2. SEGMENT INFORMATION

### (a) Description of segments

#### *Business segments*

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

Sleep – Development, Manufacture and sale of sleep diagnostic equipment.

Brain Research – Development, Manufacture and sale of Brain Research equipment.

Neuroscience – Development, Manufacture and sale of Clinical EEG and Transcranial Doppler equipment.

Neuro Medical Supplies – Manufacture, sale and resale of electrodes, sensors and other support items.

#### *Geographical segments*

The consolidated entity operates from Australia, with sales and technical service activities carried out in the USA from its offices in Minneapolis, Minnesota and El Paso, Texas. Sales and technical service activities throughout Australia, and the rest of the world, are carried out from its operations base in Melbourne.

Sales to external customers are based on the geographical location of the customer.

### (b) Primary reporting format – Business Segments

#### 2007

|                                   | Sleep  | Brain<br>Research | Neuroscience | Neuro<br>Medical<br>Supplies | Unallocated | Consolidated |
|-----------------------------------|--------|-------------------|--------------|------------------------------|-------------|--------------|
|                                   | \$'000 | \$'000            | \$'000       | \$'000                       | \$'000      | \$'000       |
| Sales to external customers       | 15,317 | 8,528             | 8,614        | 4,191                        | –           | 36,650       |
| Intersegment sales                | –      | –                 | –            | –                            | –           | –            |
| Total sales revenue               | 15,317 | 8,528             | 8,614        | 4,191                        | –           | 36,650       |
| Other income/revenue              | 65     | 36                | 36           | –                            | –           | 137          |
| Total segment revenue/income      | 15,382 | 8,564             | 8,650        | 4,191                        | –           | 36,787       |
| SEGMENT RESULT                    | 344    | 188               | (628)        | 816                          | –           | 720          |
| Unallocated income/(expense)      |        |                   |              |                              |             | (597)        |
| Tax expense                       |        |                   |              |                              |             | –            |
| Net profit after interest and tax |        |                   |              |                              |             | 123          |
| Segment assets                    | 7,206  | 3,664             | 3,994        | 2,590                        | –           | 17,454       |
| Unallocated assets                |        |                   |              |                              |             | 1,797        |
| Tax assets                        |        |                   |              |                              |             | –            |
| Total assets                      |        |                   |              |                              |             | 19,251       |
| Segment liabilities               | 2,946  | 1,640             | 1,656        | 806                          | –           | 7,048        |
| Unallocated liabilities           |        |                   |              |                              |             | 5,289        |
| Tax liabilities                   |        |                   |              |                              |             | –            |
| Total liabilities                 |        |                   |              |                              |             | 12,337       |
| Net assets                        |        |                   |              |                              |             | 6,914        |
| Acquisition of PPE                | –      | –                 | –            | –                            | 202         | 202          |
| Depreciation and amortisation     | –      | –                 | –            | –                            | (455)       | (455)        |

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

2006

|                                   | Sleep  | Brain<br>Research | Neuroscience | Neuro<br>Medical<br>Supplies | Unallocated | Consolidated |
|-----------------------------------|--------|-------------------|--------------|------------------------------|-------------|--------------|
|                                   | \$'000 | \$'000            | \$'000       | \$'000                       | \$'000      | \$'000       |
| Sales to external customers       | 14,823 | 9,700             | 8,706        | 4,355                        | –           | 37,584       |
| Intersegment sales                | –      | –                 | –            | –                            | –           | –            |
| Total sales revenue               | 14,823 | 9,700             | 8,706        | 4,355                        | –           | 37,584       |
| Other income/revenue              | 1,117  | 56                | –            | –                            | –           | 1,173        |
| Total segment revenue/income      | 15,940 | 9,756             | 8,706        | 4,355                        | –           | 38,757       |
| SEGMENT RESULT                    | 1,050  | (601)             | (1,884)      | 945                          | (581)       | (1,071)      |
| Unallocated income/(expense)      |        |                   |              |                              |             | (524)        |
| Tax expense                       |        |                   |              |                              |             | –            |
| Net profit after interest and tax |        |                   |              |                              |             | (1,595)      |
| Segment assets                    | 6,860  | 3,987             | 4,165        | 2,348                        | –           | 17,360       |
| Unallocated assets                |        |                   |              |                              |             | 4,815        |
| Tax assets                        |        |                   |              |                              |             | –            |
| Total assets                      |        |                   |              |                              |             | 22,175       |
| Segment liabilities               | 2,819  | 1,844             | 1,637        | 828                          | –           | 7,128        |
| Unallocated liabilities           |        |                   |              |                              |             | 8,330        |
| Tax liabilities                   |        |                   |              |                              |             | –            |
| Total liabilities                 |        |                   |              |                              |             | 15,458       |
| Net assets                        |        |                   |              |                              |             | 6,717        |
| Acquisition of PPE                | –      | –                 | –            | –                            | 121         | 121          |
| Depreciation and amortisation     | –      | –                 | –            | –                            | (945)       | (945)        |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting format – Geographical segments

### 2007

|                                                                    | USA    | Asia/Pac | Europe | Elimination | Group  |
|--------------------------------------------------------------------|--------|----------|--------|-------------|--------|
|                                                                    | \$'000 | \$'000   | \$'000 | \$'000      | \$'000 |
| Sales to external customers                                        | 15,197 | 10,678   | 10,775 | –           | 36,650 |
| Intersegment sales                                                 | 1,182  | 2,125    | 811    | (4,118)     | –      |
| Total sales revenue                                                | 16,379 | 12,803   | 11,586 | (4,118)     | 36,650 |
| Other income/revenue                                               | 1      | 78       | 58     | –           | 137    |
| Total segment revenue/income                                       | 16,380 | 12,881   | 11,644 | (4,118)     | 36,787 |
| Segment Assets                                                     | 5,081  | 19,624   | 3,925  | (9,379)     | 19,251 |
| Tax assets                                                         |        |          |        |             | –      |
| Total assets                                                       |        |          |        |             | 19,251 |
| Acquisitions of property, plant and equipment                      | –      | 202      | –      | –           | 202    |
| Acquisitions of intangibles and other non current segments assets. | –      | –        | –      | –           | –      |

### 2006

|                                                                   | USA    | Asia/Pac | Europe | Elimination | Group  |
|-------------------------------------------------------------------|--------|----------|--------|-------------|--------|
|                                                                   | \$'000 | \$'000   | \$'000 | \$'000      | \$'000 |
| Sales to external customers                                       | 14,058 | 13,035   | 10,491 |             | 37,584 |
| Intersegment sales                                                | 1,536  | 2,460    | 481    | (4,477)     | –      |
| Total sales revenue                                               | 15,594 | 15,495   | 10,972 | (4,477)     | 37,584 |
| Other income/revenue                                              | 56     | 114      | 1,003  | –           | 1,173  |
| Total segment revenue/income                                      | 15,650 | 15,609   | 11,975 | (4,477)     | 38,757 |
| Segment Assets                                                    | 6,364  | 20,282   | 4,631  | (9,102)     | 22,175 |
| Tax assets                                                        |        |          |        |             | –      |
| Total assets                                                      |        |          |        |             | 22,175 |
| Acquisitions of property, plant and equipment                     | –      | 121      | –      | –           | 121    |
| Acquisitions of intangibles and other non current segments assets | –      | –        | –      | –           | –      |

Segments revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

### (d) Notes to and forming part of the segment information

#### (i) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arms-length” basis and are eliminated on consolidation.

|                                                  | Consolidated   |                | Parent         |                |
|--------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 3. REVENUE</b>                           |                |                |                |                |
| <b>FROM CONTINUING OPERATIONS</b>                |                |                |                |                |
| <i>Sales revenue</i>                             |                |                |                |                |
| Sale of goods                                    | 35,201         | 35,913         | 17,128         | 20,044         |
| Services                                         | 1,449          | 1,671          | 654            | 884            |
| <i>Other revenue</i>                             |                |                |                |                |
| Interest                                         | 84             | 119            | 84             | 119            |
| <b>TOTAL REVENUES FROM CONTINUING OPERATIONS</b> | <b>36,734</b>  | <b>37,703</b>  | <b>17,866</b>  | <b>21,047</b>  |
| <b>NOTE 4. OTHER INCOME</b>                      |                |                |                |                |
| Other income                                     | 137            | 94             | 77             | –              |
| Legal settlement proceeds (note (a))             | –              | 1,079          | –              | 1,079          |
| <b>TOTAL OTHER INCOME</b>                        | <b>137</b>     | <b>1,173</b>   | <b>77</b>      | <b>1,079</b>   |

(a) **Legal settlement**

In February 2006 the Company settled a legal dispute with its former sleep diagnostic product distributor for Europe. As a consequence the Company booked proceeds net of legal expenses of \$1.08m at this time.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                            | Consolidated |            | Parent entity |            |
|--------------------------------------------------------------------------------------------|--------------|------------|---------------|------------|
|                                                                                            | 2007<br>\$   | 2006<br>\$ | 2007<br>\$    | 2006<br>\$ |
| <b>NOTE 5. EXPENSES</b>                                                                    |              |            |               |            |
| Profit before income tax includes the following specific expenses:                         |              |            |               |            |
| <i>Depreciation</i>                                                                        |              |            |               |            |
| Plant and equipment                                                                        | 356          | 470        | 206           | 301        |
| Plant and equipment under finance leases                                                   | 99           | 223        | 99            | 223        |
| Total depreciation                                                                         | 455          | 693        | 305           | 524        |
| <i>Amortisation</i>                                                                        |              |            |               |            |
| Intellectual property                                                                      | –            | 252        | –             | –          |
| Total amortisation                                                                         | –            | 252        | –             | –          |
| <i>Finance costs</i>                                                                       |              |            |               |            |
| Interest and finance charges paid/payable                                                  | 871          | 643        | 729           | 611        |
| Total finance costs                                                                        | 871          | 643        | 729           | 611        |
| <i>Rental expense relating to operating leases</i>                                         |              |            |               |            |
| Minimum lease payments                                                                     | 1,131        | 1,065      | 562           | 476        |
| Total rental expense relating to operating lease                                           | 1,131        | 1,065      | 562           | 476        |
| <i>Foreign exchange gains and losses</i>                                                   |              |            |               |            |
| Net foreign exchange losses / (income)                                                     | 1,043        | (277)      | 1,025         | (483)      |
| Net foreign exchange losses / (income) recognised in profit before income tax for the year | 1,043        | (277)      | 1,025         | (483)      |
| <i>Employee benefits</i>                                                                   |              |            |               |            |
| Payroll expense including leave payments                                                   | 12,035       | 10,546     | 6,182         | 4,775      |
| Superannuation entitlements                                                                | 808          | 767        | 495           | 405        |
| Total employee Benefits                                                                    | 12,843       | 11,313     | 6,677         | 5,180      |
| Non-current receivables – impairment provision                                             | –            | –          | 1,585         | 3,667      |
| Non-current assets– impairment provision<br>for investments in controlled entities         | –            | –          | 435           | 107        |

|                                                                                                                                                            | Consolidated   |                | Parent         |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                                                                            | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 6. INCOME TAX EXPENSE</b>                                                                                                                          |                |                |                |                |
| <b>(a) Income tax expense</b>                                                                                                                              |                |                |                |                |
| Current tax                                                                                                                                                | –              | –              | –              | –              |
| Deferred tax                                                                                                                                               | –              | –              | –              | –              |
| Aggregate income tax expense                                                                                                                               | –              | –              | –              | –              |
| Deferred income tax (revenue) expense included in income tax comprises:                                                                                    |                |                |                |                |
| (decrease) increase in deferred tax liabilities                                                                                                            | 73             | –              | 73             | –              |
| <b>(b) Numerical Reconciliation of income tax expense to prima facie tax payable</b>                                                                       |                |                |                |                |
| Profit from continuing operations before income tax expense                                                                                                | 123            | (1,595)        | (709)          | (2,529)        |
| Tax at the Australian tax rate of 30% (2006 – 30%)                                                                                                         | 37             | (479)          | (292)          | (759)          |
| Tax effect of amounts which are not deductible (taxable) in calculating income:                                                                            |                |                |                |                |
| Impairment of intercompany receivables and investments                                                                                                     | –              | –              | 607            | 1,100          |
| Entertainment                                                                                                                                              | 3              | 8              | 3              | 8              |
| Research and development                                                                                                                                   | (451)          | (360)          | (451)          | (360)          |
| Losses not brought to account                                                                                                                              | 411            | 831            | 133            | 11             |
| <b>Income tax expense</b>                                                                                                                                  | <b>–</b>       | <b>–</b>       | <b>–</b>       | <b>–</b>       |
| <b>(c) Amounts recognised directly in equity</b>                                                                                                           |                |                |                |                |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity     |                |                |                |                |
| Net deferred tax – debited (credited) directly to equity (note 21)                                                                                         | 73             | –              | 73             | –              |
| <b>(d) Tax losses</b>                                                                                                                                      |                |                |                |                |
| Unused tax losses for which no deferred tax asset has been recognised                                                                                      | 6,513          | 4,195          | 6,513          | 3,583          |
| Potential tax benefit @ 30%                                                                                                                                | 1,954          | 1,259          | 1,954          | 1,075          |
| (a) The benefit of tax losses will of be obtained if:                                                                                                      |                |                |                |                |
| (i) the Group derived future assessable income of a nature and an amount sufficient to enable the benefit form the deductions for the loss to be realised. |                |                |                |                |
| (ii) the Group continued to comply with the conditions for deductibility imposed by tax legislation, and                                                   |                |                |                |                |
| (iii) no change in tax legislation adversely affected the Group in realising the benefit from the deductions for the loss                                  |                |                |                |                |
| (b) Compumedics Limited and its wholly owned Australian controlled entities have elected not to implement the tax consolidation legislation.               |                |                |                |                |
| <b>(e) Provision for income tax</b>                                                                                                                        |                |                |                |                |
| Balance at 1 July                                                                                                                                          | 72             | 72             | –              | –              |
| Provision no longer required                                                                                                                               | (72)           | –              | –              | –              |
| <b>Balance at 30 June</b>                                                                                                                                  | <b>–</b>       | <b>72</b>      | <b>–</b>       | <b>–</b>       |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

|                                                                                                                                  | Consolidated   |                | Parent         |                |
|----------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                                                  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| (f) Deferred tax                                                                                                                 |                |                |                |                |
| Deferred tax liabilities                                                                                                         |                |                |                |                |
| Intangible assets (note 13)                                                                                                      | 246            | –              | 246            | –              |
| Value of conversion rights of RCNs (note 21)                                                                                     | 73             | –              | 73             | –              |
| <b>Total deferred tax liability recognised</b>                                                                                   | <b>319</b>     | <b>–</b>       | <b>319</b>     | <b>–</b>       |
| Set-off of deferred tax assets (in relation inventory provisions)<br>pursuant to set-off provisions                              | (246)          | –              | (246)          | –              |
| <b>Net deferred tax liability</b>                                                                                                | <b>73</b>      | <b>–</b>       | <b>73</b>      | <b>–</b>       |
| <b>NOTE 7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS</b>                                                                        |                |                |                |                |
| Cash at bank and in hand                                                                                                         | 364            | 3,319          | 77             | 2,845          |
| (a) Reconciliation to cash at the end of the year                                                                                |                |                |                |                |
| The above figures are reconciled to cash at the end of the<br>financial year as shown in the statement of cash flows as follows: |                |                |                |                |
| Balances as above                                                                                                                | 364            | 3,319          | 77             | 2,845          |
| Bank Overdraft (Note 15)                                                                                                         | (917)          | (965)          | –              | –              |
| Balances per statement of cash flows                                                                                             | (555)          | 2,354          | 77             | 2,845          |
| (b) Cash at bank and on hand                                                                                                     |                |                |                |                |
| Refer note 10 for interest risk rate                                                                                             |                |                |                |                |
| <b>NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES</b>                                                                      |                |                |                |                |
| Trade receivables (note (b))                                                                                                     | 12,145         | 12,969         | 6,146          | 6,159          |
| Provision for impairment of receivables (note (a))                                                                               | (502)          | (436)          | (414)          | (204)          |
|                                                                                                                                  | 11,643         | 12,533         | 5,732          | 5,955          |
| Loans to key management personnel*                                                                                               | 56             | 167            | 56             | 167            |
| Other receivables/prepayments                                                                                                    | 164            | 208            | 164            | 208            |
| Sales tax receivable                                                                                                             | 601            | 204            | –              | –              |
| <b>TOTAL</b>                                                                                                                     | <b>821</b>     | <b>579</b>     | <b>220</b>     | <b>375</b>     |
| <b>TOTAL TRADE AND OTHER RECEIVABLES</b>                                                                                         | <b>12,464</b>  | <b>13,112</b>  | <b>5,952</b>   | <b>6,330</b>   |

\* Further information relating to key management personnel is set out in Note 23.

## (a) Bad and doubtful trade receivables

The Group has recognised a loss of \$435,389 (2006: \$3,042) in respect of bad and doubtful trade receivables during the year ended 30 June 2007. The loss has been included in the income statement.

## (b) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (Note 10).

|                                             | Consolidated   |                | Parent         |                |
|---------------------------------------------|----------------|----------------|----------------|----------------|
|                                             | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 9. CURRENT ASSETS – INVENTORIES</b> |                |                |                |                |
| Raw materials and stores—at cost            | 3,885          | 3,070          | 3,026          | 2,977          |
| Work in progress—at cost                    | 1,158          | 1,168          | 463            | 256            |
| Finished goods—at cost                      | 4,277          | 4,008          | 2,230          | 1,631          |
| Provision for obsolescence                  | (4,329)        | (3,420)        | (2,755)        | (2,195)        |
| <b>TOTAL</b>                                | <b>4,991</b>   | <b>4,826</b>   | <b>2,964</b>   | <b>2,669</b>   |

**(a) Inventory expense**

Inventories recognised as expense during the year ended 30 June 2007 amounted to \$15,384,000 (2006: \$18,024,000).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2007 amounted to \$81,663 (2006: \$967,867). The expense has been included in the income statement.

|                                                     | Consolidated   |                | Parent         |                |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                     | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 10. NON CURRENT ASSETS – RECEIVABLES</b>    |                |                |                |                |
| Loans to controlled entities                        | –              | –              | 8,985          | 8,912          |
| Provision for impairment of non-current receivables | –              | –              | (5,252)        | (3,667)        |
| <b>TOTAL</b>                                        | <b>–</b>       | <b>–</b>       | <b>3,733</b>   | <b>5,245</b>   |

Further information relating to key management personnel and loans to related parties is set out in notes 23 and 28 respectively.

**(a) Fair values**

The fair values and carrying values of non-current receivables of the Group are as follows:

|                              | 2007                         |                         | 2006                         |                         |
|------------------------------|------------------------------|-------------------------|------------------------------|-------------------------|
|                              | Carrying<br>amount<br>\$,000 | Fair<br>value<br>\$,000 | Carrying<br>amount<br>\$,000 | Fair<br>value<br>\$,000 |
| Loans to controlled entities | 3,733                        | 3,733                   | 5,245                        | 5,245                   |

The Group has yet to formally define the terms and conditions for the inter-company loans. The fair value of the non interest bearing receivable is based on the present value of estimated future cash flows.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 10. NON CURRENT ASSETS – RECEIVABLES (CONTINUED)

### (b) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

|                                |                        | Fixed interest maturing in: |                   |                   |                   |                   |                   | Non-interest bearing | Total         |
|--------------------------------|------------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|---------------|
|                                | Floating interest rate | 1 year or less              | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 4 years | Over 4 to 5 years | More than 5 years |                      |               |
| 2007                           | \$'000                 | \$'000                      | \$'000            | \$'000            | \$'000            | \$'000            | \$'000            | \$'000               | \$'000        |
| <b>FINANCIAL ASSETS</b>        |                        |                             |                   |                   |                   |                   |                   |                      |               |
| Cash and deposits receivables  | 364                    | –                           | –                 | –                 | –                 | –                 | –                 | –                    | 364           |
| Receivables                    | –                      | –                           | –                 | –                 | –                 | –                 | –                 | 12,464               | 12,464        |
| <b>Total</b>                   | <b>364</b>             | <b>–</b>                    | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>12,464</b>        | <b>12,828</b> |
| Weighted average interest rate | 6.07%                  |                             |                   |                   |                   |                   |                   |                      |               |

|                                |                        | Fixed interest maturing in: |                   |                   |                   |                   |                   | Non-interest bearing | Total         |
|--------------------------------|------------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|---------------|
|                                | Floating interest rate | 1 year or less              | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 4 years | Over 4 to 5 years | More than 5 years |                      |               |
| 2006                           | \$'000                 | \$'000                      | \$'000            | \$'000            | \$'000            | \$'000            | \$'000            | \$'000               | \$'000        |
| <b>FINANCIAL ASSETS</b>        |                        |                             |                   |                   |                   |                   |                   |                      |               |
| Cash and deposits              | 1,319                  | 2,000                       | –                 | –                 | –                 | –                 | –                 | –                    | 3,319         |
| Receivables                    | –                      | –                           | –                 | –                 | –                 | –                 | –                 | 13,112               | 13,112        |
| <b>Total</b>                   | <b>1,319</b>           | <b>2,000</b>                | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>–</b>          | <b>13,112</b>        | <b>16,431</b> |
| Weighted average interest rate | 5.48%                  | 5.57%                       |                   |                   |                   |                   |                   |                      |               |

### (c) Credit risk

The Group at 30 June 2007 has approximately 20 customers which owe the Group more than \$5.3m. These customers are spread across the world and have been trading with the Group for various periods of time. The Group does not consider this concentration of accounts to materially increase the credit risk with respect to current and non-current receivables. All other receivables are dispersed over a large number of international customers.

## NOTE 11. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS

|                                    | Consolidated   |                | Parent         |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Investments in controlled entities | –              | –              | 7,625          | 7,625          |
| Provision for diminution           | –              | –              | (7,625)        | (7,190)        |
| <b>TOTAL</b>                       | <b>–</b>       | <b>–</b>       | <b>–</b>       | <b>435</b>     |

These financial assets are carried at their net recoverable amount.

## NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| Consolidated                   | Plant and<br>Equipment<br>At Cost<br>\$'000 | Plant and<br>Equipment<br>Leased<br>\$'000 | Motor<br>Vehicle<br>\$'000 | Office<br>Equipment<br>At Cost<br>\$'000 | Office<br>Equipment<br>Leased<br>\$'000 | Leasehold<br>Improvements<br>\$'000 | Total<br>\$'000 |
|--------------------------------|---------------------------------------------|--------------------------------------------|----------------------------|------------------------------------------|-----------------------------------------|-------------------------------------|-----------------|
| <b>At 1 July 2005</b>          |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 574                                         | 430                                        | 157                        | 2,242                                    | 557                                     | 473                                 | 4,433           |
| Accumulated depreciation       | (473)                                       | (240)                                      | (89)                       | (1,404)                                  | (414)                                   | (292)                               | (2,912)         |
| Net book amount                | 101                                         | 190                                        | 68                         | 838                                      | 143                                     | 181                                 | 1,521           |
| <b>Year ended 30 June 2006</b> |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Opening net book amount        | 101                                         | 190                                        | 68                         | 838                                      | 143                                     | 181                                 | 1,521           |
| Additions                      | 22                                          | –                                          | –                          | 99                                       | –                                       | –                                   | 121             |
| Disposals                      | –                                           | –                                          | –                          | (4)                                      | –                                       | –                                   | (4)             |
| Exchange differences           | 2                                           | –                                          | 2                          | (31)                                     | –                                       | –                                   | (27)            |
| Depreciation charge            | (31)                                        | (108)                                      | (25)                       | (361)                                    | (115)                                   | (53)                                | (693)           |
| Closing net book amount        | 94                                          | 82                                         | 45                         | 541                                      | 28                                      | 128                                 | 918             |
| <b>At 30 June 2006</b>         |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 596                                         | 430                                        | 157                        | 2,337                                    | 557                                     | 473                                 | 4,550           |
| Accumulated depreciation       | (502)                                       | (348)                                      | (112)                      | (1,796)                                  | (529)                                   | (345)                               | (3,632)         |
| Net book amount                | 94                                          | 82                                         | 45                         | 541                                      | 28                                      | 128                                 | 918             |
| <b>Year ended 30 June 2007</b> |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Opening net book amount        | 94                                          | 82                                         | 45                         | 541                                      | 28                                      | 128                                 | 918             |
| Additions                      | 3                                           | –                                          | –                          | 80                                       | 14                                      | 105                                 | 202             |
| Disposals                      | –                                           | –                                          | –                          | –                                        | –                                       | –                                   | –               |
| Exchange differences           | (7)                                         | –                                          | (7)                        | (38)                                     | –                                       | –                                   | (52)            |
| Depreciation charge            | (41)                                        | (67)                                       | (30)                       | (242)                                    | (32)                                    | (43)                                | (455)           |
| Closing net book amount        | 49                                          | 15                                         | 8                          | 341                                      | 10                                      | 190                                 | 613             |
| <b>At 30 June 2007</b>         |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 599                                         | 430                                        | 157                        | 2,417                                    | 571                                     | 578                                 | 4,752           |
| Accumulated depreciation       | (550)                                       | (415)                                      | (149)                      | (2,076)                                  | (561)                                   | (388)                               | (4,139)         |
| Net book amount                | 49                                          | 15                                         | 8                          | 341                                      | 10                                      | 190                                 | 613             |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

| Parent                         | Plant and<br>Equipment<br>At Cost<br>\$'000 | Plant and<br>Equipment<br>Leased<br>\$'000 | Motor<br>Vehicle<br>\$'000 | Office<br>Equipment<br>At Cost<br>\$'000 | Office<br>Equipment<br>Leased<br>\$'000 | Leasehold<br>Improvements<br>\$'000 | Total<br>\$'000 |
|--------------------------------|---------------------------------------------|--------------------------------------------|----------------------------|------------------------------------------|-----------------------------------------|-------------------------------------|-----------------|
| <b>At 1 July 2005</b>          |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 470                                         | 430                                        | 19                         | 1,482                                    | 557                                     | 473                                 | 3,431           |
| Accumulated depreciation       | (411)                                       | (240)                                      | (19)                       | (1,044)                                  | (414)                                   | (292)                               | (2,420)         |
| Net book amount                | 59                                          | 190                                        | –                          | 438                                      | 143                                     | 181                                 | 1,011           |
| <b>Year ended 30 June 2006</b> |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Opening net book amount        | 59                                          | 190                                        | –                          | 438                                      | 143                                     | 181                                 | 1,011           |
| Additions                      | –                                           | –                                          | –                          | 56                                       | –                                       | –                                   | 56              |
| Disposals                      | –                                           | –                                          | –                          | (3)                                      | –                                       | –                                   | (3)             |
| Depreciation charge            | (21)                                        | (108)                                      | –                          | (227)                                    | (115)                                   | (53)                                | (524)           |
| Closing net book amount        | 38                                          | 82                                         | –                          | 264                                      | 28                                      | 128                                 | 540             |
| <b>At 30 June 2006</b>         |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 470                                         | 430                                        | 19                         | 1,535                                    | 557                                     | 473                                 | 3,484           |
| Accumulated depreciation       | (432)                                       | (348)                                      | (19)                       | (1,271)                                  | (529)                                   | (345)                               | (2,944)         |
| Net book amount                | 38                                          | 82                                         | –                          | 264                                      | 28                                      | 128                                 | 540             |
| <b>Year ended 30 June 2007</b> |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Opening net book amount        | 38                                          | 82                                         | –                          | 264                                      | 28                                      | 128                                 | 540             |
| Additions                      | –                                           | –                                          | –                          | 16                                       | 14                                      | 105                                 | 135             |
| Disposals                      | –                                           | –                                          | –                          | –                                        | –                                       | –                                   | –               |
| Depreciation charge            | (17)                                        | (67)                                       | –                          | (146)                                    | (32)                                    | (43)                                | (305)           |
| Closing net book amount        | 21                                          | 15                                         | –                          | 134                                      | 10                                      | 190                                 | 370             |
| <b>At 30 June 2007</b>         |                                             |                                            |                            |                                          |                                         |                                     |                 |
| Cost or fair value             | 470                                         | 430                                        | 19                         | 1,551                                    | 571                                     | 578                                 | 3,619           |
| Accumulated depreciation       | (449)                                       | (415)                                      | (19)                       | (1,417)                                  | (561)                                   | (388)                               | (3,249)         |
| Net book amount                | 21                                          | 15                                         | –                          | 134                                      | 10                                      | 190                                 | 370             |

### (a) Non-current assets pledged as security

Refer to Note 19 for information on non-current assets pledged as security by the parent entity and its controlled entities.

## NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

### b) Leased assets

Furniture, fittings and equipment includes the following amounts where the Group is lessee under a lease:

|                                               | Consolidated   |                | Parent         |                |
|-----------------------------------------------|----------------|----------------|----------------|----------------|
|                                               | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>Leased Equipment – under finance lease</b> |                |                |                |                |
| Cost                                          | 1,001          | 987            | 1,001          | 987            |
| Accumulated depreciation                      | (976)          | (877)          | (976)          | (877)          |
| Net book amount                               | 25             | 110            | 25             | 110            |
| <b>Leasehold Improvements</b>                 |                |                |                |                |
| Cost                                          | 578            | 473            | 578            | 473            |
| Accumulated depreciation                      | (388)          | (345)          | (388)          | (345)          |
| Net book amount                               | 190            | 128            | 190            | 128            |

## NOTE 13. NON-CURRENT ASSETS – INTANGIBLE ASSETS

|                                                  | Consolidated   |                | Parent         |                |
|--------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Cost*                                            | 1,072          | 252            | 820            | –              |
| Accumulated amortisation charge** and impairment | (252)          | (252)          | –              | –              |
| Net book amount                                  | 820            | –              | 820            | –              |

\* Includes capitalised development cost being an internally generated intangible asset for \$820,000.

\*\* Amortisation of \$Nil (2006: \$252,000) is included in the income statement.

|                                                                | Consolidated   |                | Parent         |                |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 14. CURRENT LIABILITIES – Trade and other payables</b> |                |                |                |                |
| Trade payables                                                 | 4,892          | 5,225          | 2,481          | 3,090          |
| Other payables                                                 | 1,404          | 1,250          | 646            | 538            |
| Employee benefits – Annual leave                               | 795            | 653            | 534            | 525            |
| <b>TOTAL</b>                                                   | <b>7,091</b>   | <b>7,128</b>   | <b>3,661</b>   | <b>4,153</b>   |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

|                                                  | Consolidated   |                | Parent         |                |
|--------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 15. CURRENT LIABILITIES – Borrowings</b> |                |                |                |                |
| <b>SECURED</b>                                   |                |                |                |                |
| Bank loans                                       | 1,587          | 1,000          | 1,587          | 1,000          |
| Bank overdraft                                   | 918            | 965            | –              | –              |
| Lease liability (note 26)                        | 45             | 101            | 45             | 101            |
|                                                  | 2,550          | 2,066          | 1,632          | 1,101          |
| <b>UNSECURED</b>                                 |                |                |                |                |
| Concessional loan (note (a))                     | –              | 106            | –              | 106            |
| Redeemable Convertible Notes (note (b))          | 846            | 1,024          | 846            | 1,024          |
| Payable to controlled entities                   | –              | –              | –              | 49             |
| <b>TOTAL</b>                                     | <b>3,396</b>   | <b>3,196</b>   | <b>2,478</b>   | <b>2,280</b>   |

## (a) Concessional loan

The concessional loan was provided to the Company via an initiative from AusIndustry. The loan was drawn down in 1999 and has been fully repaid at 30 June 2007.

## (b) Redeemable Convertible Notes (RCNs)

On 16 March 2006 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of \$1 million. The RCNs are convertible, at the option of the holder, into ordinary issued equity of the Company on the 1st and 2nd anniversary of their issue and have a 2 year life. The holder did not elect to convert the RCNs at the 1<sup>st</sup> anniversary.

The RCNs carry a coupon rate of interest of 20% p.a.

Coupon interest on the RCNs can only be paid as equity. The first year interest was converted into equity during the year ended 30 June, 2007.

The conversion factor to be used if the holder elects to turn the RCNs into ordinary equity of the Company is the average share price for 5 days immediately prior to the issue of the RCNs. The average share price calculated on this basis is 8.2 cents per share.

|                                            | Consolidated   |                | Parent         |                |
|--------------------------------------------|----------------|----------------|----------------|----------------|
|                                            | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Face value of notes issued                 | 1,000          | 1,000          | 1,000          | 1,000          |
| Accumulated interest expense               | 24             | 24             | 24             | 24             |
| Interest expense                           | 167            | –              | 167            | –              |
| Value of conversion rights taken to equity | (345)          | –              | (345)          | –              |
| <b>Current liability</b>                   | <b>846</b>     | <b>1,024</b>   | <b>846</b>     | <b>1,024</b>   |

(i) Interest expense is calculated by applying the effective interest rate of 16.6% p.a. (2006: 14.5%) to the liability component.

The 16.6% interest expense in the current year differs from the prima facie rate of 20% as approval was gained part way through the year. Hence the 16.6% is the weighted average interest rate for the year.

## NOTE 15. CURRENT LIABILITIES – Borrowings (Continued)

### (c) Payable to controlled entities

The payable to controlled entities relates to an historical loan with Compumedics Telemed Pty Ltd a 100% owned subsidiary of Compumedics Limited.

### (d) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 19.

### (e) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 19.

### (f) Security

Details of the security relating to each of the secured liabilities and further information on the bank overdraft and bank loans are set out in note 19.

### (g) Financial guarantees

The parent entity has given an unsecured guarantee in respect of a loan to a subsidiary amounting to \$2,221,135 (2006: \$2,700,212).

A liability has not been recognized by the parent entity in relation to these financial guarantees.

|                                                        | Consolidated   |                | Parent         |                |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                        | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| NOTE 16. CURRENT LIABILITIES – Current tax liabilities |                |                |                |                |
| Provision for income tax                               | –              | 72             | –              | –              |

## NOTE 17. CURRENT LIABILITIES – Provisions

|                                      | Consolidated   |                | Parent         |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Employee benefits–long service leave | 401            | 328            | 401            | 328            |
| Service warranties                   | 296            | 312            | 158            | 181            |
| <b>TOTAL</b>                         | <b>697</b>     | <b>640</b>     | <b>559</b>     | <b>509</b>     |

### SERVICE WARRANTIES

Provision is made for the estimated warranty claims in respect of products sold which are still under warranty at balance date. These claims are expected to be settled in the next financial year but this may be extended into the following year if claims are made late in the warranty period and are subject to confirmation by suppliers that component parts are defective.

Management estimates provision based historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## MOVEMENT IN PROVISIONS

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

|                                  | Service Warranties |        |
|----------------------------------|--------------------|--------|
|                                  | Consolidated       | Parent |
|                                  | \$'000             | \$'000 |
| Balance at 1 July 2006           | 312                | 181    |
| Additional provisions recognised | –                  | –      |
| Unused amounts reversed          | (16)               | (23)   |
| Balance at 30 June 2007          | 296                | 158    |

|                                                        | Consolidated   |                | Parent         |                |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                        | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>NOTE 18. CURRENT LIABILITIES – Deferred revenue</b> |                |                |                |                |
| Deferred revenue                                       | 1,059          | 1,115          | 226            | 214            |
| <b>TOTAL</b>                                           | <b>1,059</b>   | <b>1,115</b>   | <b>226</b>     | <b>214</b>     |

Deferred revenue relates to service contracts yet to be performed and post sale installation and training obligations yet to be completed pursuant to the Company's accounting policies as detailed in Note 1A. Summary of significant accounting policies, (e) Revenue recognition on page 59.

## NOTE 19. NON CURRENT LIABILITIES – Borrowings

### SECURED

|                           | Consolidated   |                | Parent         |                |
|---------------------------|----------------|----------------|----------------|----------------|
|                           | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Bank Loans                | –              | 3,215          | –              | 3,215          |
| Lease liability (note 26) | 7              | 32             | 7              | 32             |
| <b>TOTAL</b>              | <b>7</b>       | <b>3,247</b>   | <b>7</b>       | <b>3,247</b>   |

## NOTE 19. NON CURRENT – Borrowings (continued)

### (a) Assets pledged as security

The bank loans and overdraft are secured by a Corporate Guarantee and Indemnity unlimited as to amount and a Mortgage Debenture over all the assets and undertaking of the Company and subsidiaries Compumedics Telemed Pty Ltd, Compumedics Cardiology Pty Ltd, Compumedics Medical Innovation Pty Ltd, Compumedics USA Inc, Compumedics Germany GmbH and Compumedics Singapore Pte Ltd. Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

|                                              | Notes | Consolidated   |                | Parent         |                |
|----------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                              |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <b>Current</b>                               |       |                |                |                |                |
| <i>Floating charge</i>                       |       |                |                |                |                |
| Cash and cash equivalents                    | 7     | 363            | 3,319          | 77             | 2,845          |
| Inventories                                  | 9     | 4,991          | 4,826          | 2,964          | 2,669          |
| Receivables                                  | 8     | 12,464         | 13,112         | 5,952          | 6,330          |
| Total current assets pledged as security     |       | 17,818         | 21,257         | 8,993          | 11,844         |
| <b>Non-current</b>                           |       |                |                |                |                |
| <i>Floating charge</i>                       |       |                |                |                |                |
| Receivables                                  | 10    | –              | –              | 3,733          | 5,245          |
| Other Financial asset                        | 11    | –              | –              | –              | 435            |
| Plant and equipment                          | 12    | 613            | 918            | 371            | 540            |
| Total non-current assets pledged as security |       | 613            | 918            | 4,104          | 6,220          |
| Total assets pledged as security             |       | 18,431         | 22,175         | 13,097         | 18,064         |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 19. NON CURRENT – Borrowings (continued)

### (b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

|                                    | Notes | Consolidated   |                | Parent         |                |
|------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                    |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| <i>Credit standby arrangements</i> |       |                |                |                |                |
| Bank Overdraft                     |       |                |                |                |                |
| Total facility (EUR 600,000)       |       | 960            | 1,033          | –              | –              |
| Used at balance date               | 15    | 918            | 965            | –              | –              |
| Unused at balance date             |       | 42             | 68             | –              | –              |
| <i>Bank loan facilities</i>        |       |                |                |                |                |
| Total facilities                   |       | 1,678          | 4,216          | 1,678          | 4,216          |
| Used at balance date               | 15    | 1,587          | 4,215          | 1,587          | 4,215          |
| Unused at balance date             |       | 91             | 1              | 91             | 1              |

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

### (c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Group tends to hold fixed rate liabilities to maturity.

| Notes                     | Floating interest rate | Fixed interest maturing in: |                   |                   |                   |                   |                   |        | Non-interest bearing | Total  |
|---------------------------|------------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------|----------------------|--------|
|                           |                        | 1 year or less              | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 4 years | Over 4 to 5 years | More than 5 years |        |                      |        |
| 2007                      |                        | \$'000                      | \$'000            | \$'000            | \$'000            | \$'000            | \$'000            | \$'000 | \$'000               | \$'000 |
| FINANCIAL LIABILITIES     |                        |                             |                   |                   |                   |                   |                   |        |                      |        |
| Bank loans and facilities | 15                     | 2,550                       | –                 | –                 | –                 | –                 | –                 | –      | –                    | 2,550  |
| Trade and other creditors | 14                     | –                           | –                 | –                 | –                 | –                 | –                 | –      | 7,091                | 7,091  |
| Other loans               | 15                     | –                           | 846               | –                 | –                 | –                 | –                 | –      | –                    | 846    |
| Deferred revenue          | 18                     | –                           | –                 | –                 | –                 | –                 | –                 | –      | 1,059                | 1,059  |
| Total                     |                        | 2,550                       | 846               | –                 | –                 | –                 | –                 | –      | 8,150                | 11,546 |

Weighted average interest rate: 10.5% 16.6%

| Fixed interest maturing in: |                        |                |                   |                   |                   |                   |                   |                      |        | Total  |
|-----------------------------|------------------------|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|--------|--------|
| Notes                       | Floating interest rate | 1 year or less | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 4 years | Over 4 to 5 years | More than 5 years | Non-interest bearing |        |        |
| 2006                        |                        | \$'000         | \$'000            | \$'000            | \$'000            | \$'000            | \$'000            | \$'000               | \$'000 | \$'000 |
| FINANCIAL LIABILITIES       |                        |                |                   |                   |                   |                   |                   |                      |        |        |
| Bank loans and facilities   | 15,19                  | 5,313          | 106               | –                 | –                 | –                 | –                 | –                    | –      | 5,419  |
| Trade and other creditors   | 14                     | –              | –                 | –                 | –                 | –                 | –                 | –                    | 7,128  | 7,128  |
| Other loans                 | 15                     | –              | 1,024             | –                 | –                 | –                 | –                 | –                    | –      | 1,024  |
| Deferred revenue            | 18                     | –              | –                 | –                 | –                 | –                 | –                 | –                    | 1,115  | 1,115  |
| Total                       |                        | 5,313          | 1,130             | –                 | –                 | –                 | –                 | –                    | 8,243  | 14,686 |

Weighted average interest rate: 8.65% 13.4%

(d) Fair value

No borrowings are readily traded on organised markets.

The carrying amounts of all borrowings are not materially different to their fair values at balance date.

The fair values of borrowings is based upon discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

Fair value does not include any transaction costs.

(e) Off balance sheet derivative instruments

Compumedics Limited and certain of its controlled entities may be party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. At reporting date there were no outstanding derivative financial instruments in place.

(f) Forward exchange contracts

At 30 June 2007 and 30 June 2006 there were no outstanding forward exchange contracts.

NOTE 20. NON CURRENT LIABILITIES–PROVISIONS

|                                        | Consolidated   |                | Parent         |                |
|----------------------------------------|----------------|----------------|----------------|----------------|
|                                        | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Employee Benefits – Long service leave | 12             | 60             | 12             | 60             |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 21. CONTRIBUTED EQUITY

|                                                   |         | Parent and Consolidated |                |                |                |
|---------------------------------------------------|---------|-------------------------|----------------|----------------|----------------|
|                                                   | Notes   | 2007<br>Shares          | 2006<br>Shares | 2007<br>\$'000 | 2006<br>\$'000 |
| (a) Share Capital                                 |         |                         |                |                |                |
| Ordinary Shares                                   | (c),(d) | 140,070,423             | 140,000,000    | 29,020         | 29,020         |
| Shares issued in lieu of interest payable on RCNs | (c)     | 2,439,024               | –              | 200            | –              |
|                                                   |         | 142,509,447             | 140,000,000    | 29,220         | 29,020         |
| (b) Other equity securities                       |         |                         |                |                |                |
| Value of conversions rights RCNs                  | (e)     |                         |                | 345            | –              |
| Deferred tax liability component                  |         |                         |                | (73)           | –              |
|                                                   |         |                         |                | 272            | –              |
| Total contributed equity parent entity            |         |                         |                | 29,492         | 29,020         |
| Total consolidated contributed equity             |         |                         |                | 29,492         | 29,020         |

### (c) Movements in ordinary share capital

| Date       | Details                                                 | Notes | Number of Shares | Issue price | \$'000 |
|------------|---------------------------------------------------------|-------|------------------|-------------|--------|
| 30-06-2004 | Balance                                                 | (b)   | 140,000,000      | –           | 29,020 |
|            | Nil movement in year                                    |       |                  | –           |        |
| 30-06-2005 | Balance                                                 |       | 140,000,000      | –           | 29,020 |
|            | Nil movement in year                                    |       |                  |             | –      |
| 30-06-2006 | Balance                                                 |       | 140,000,000      | –           | 29,020 |
|            | Shares issued on conversion of options in lieu of bonus |       | 70,423           | 0.01        | –      |
|            | Shares issued in lieu of interest payable on RCNs       |       | 2,439,024        | 0.082       | 200    |
| 30-06-2007 | Balance                                                 |       | 142,509,447      | 0.2         | 29,220 |

### (d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the company in proportion to the number of and amounts paid on shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote. The ordinary shares have no par value.

### (e) Other equity securities

The amount shown for the other equity securities is the value of the conversion rights relating to the RCN, details of which is shown in note 15.

|                                                          | Consolidated    |                 | Parent          |                 |
|----------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                                          | 2007<br>\$'000  | 2006<br>\$'000  | 2007<br>\$'000  | 2006<br>\$'000  |
| <b>NOTE 22. RESERVES AND RETAINED PROFITS</b>            |                 |                 |                 |                 |
| <b>(a) Reserves</b>                                      |                 |                 |                 |                 |
| Shares issued in lieu of interest payable on RCNs        | (200)           | –               | (200)           | –               |
| Foreign currency translation reserve                     | (583)           | (385)           | –               | –               |
|                                                          | <b>(783)</b>    | <b>(385)</b>    | (200)           | –               |
| <b>Movements</b>                                         |                 |                 |                 |                 |
| <i>Shares issued in lieu of interest payable on RCNs</i> |                 |                 |                 |                 |
| Balance 1 July                                           | –               | –               | –               | –               |
| Shares issued                                            | (200)           | –               | (200)           | –               |
| Balance 30 June                                          | (200)           | –               | (200)           | –               |
| <i>Foreign currency translation reserve</i>              |                 |                 |                 |                 |
| Balance 1 July                                           | (385)           | (558)           | –               | –               |
| Currency translation differences arising during the year | (198)           | 173             | –               | –               |
| <b>Balance 30 June</b>                                   | <b>(583)</b>    | <b>(385)</b>    | <b>–</b>        | <b>–</b>        |
| <b>(b) Retained profits</b>                              |                 |                 |                 |                 |
| Movements in retained losses were as follows:            |                 |                 |                 |                 |
| Balance 1 July                                           | (21,918)        | (20,323)        | (21,419)        | (18,890)        |
| Net profit/(loss) for the year                           | 123             | (1,595)         | (974)           | (2,529)         |
| <b>Balance 30 June</b>                                   | <b>(21,795)</b> | <b>(21,918)</b> | <b>(22,393)</b> | <b>(21,419)</b> |

**(c) Nature and purposes of reserves**

(i) Shares issued in lieu of interest payable on RCNs

Pursuant to the terms of the RCNs, 2,439,024 ordinary shares were issued to D & DJ Burton Holdings Pty Ltd. The number of shares issued was determined by dividing the interest due of \$200,000 by the conversion price of 8.2 cents per share. The conversion price being the average share price for the 5 trading days immediately prior to issue of the RCNs.

Foreign currency translation reserve

- (ii) Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

The following persons were directors of Compumedics Ltd during the financial year:

#### (i) Chairman and Executive director

David Burton, Chief Executive Officer

#### (ii) Non-executive directors

Alan Anderson

Prof. Graham Mitchell

Bruce Rathie (retired December 2006)

Mr. Bruce Rathie was a Director from the beginning of the financial year through to his retirement in December 2006.

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name             | Position                                      | Employer                 |
|------------------|-----------------------------------------------|--------------------------|
| David Lawson^    | Chief Financial Officer and Company Secretary | Compumedics Limited      |
| Warwick Freeman^ | Chief Technology Officer                      | Compumedics Limited      |
| Kerry Kubick     | Legal Counsel & Patent Attorney               | Compumedics Limited      |
| Andrew Kegel     | Business Director, Australia and New Zealand  | Compumedics Limited      |
| Anthony Curro^   | Vice President, Sales, America                | Compumedics USA Limited  |
| Christoph Witte^ | Managing Director, DWL                        | Compumedics Germany GmbH |
| Paul Spooner^    | Business Director, Europe and Middle East     | Compumedics Limited      |
| Curtis Ponton^   | Vice President, Chief Scientist Neuroscan     | Compumedics USA Limited  |
| Tom Lorick^      | Vice President, Marketing America             | Compumedics USA Limited  |

^The above persons were also key management persons during the year ended 30 June 2006.

### (c) Key management personnel compensation

|                              | Consolidated     |                  | Parent           |                  |
|------------------------------|------------------|------------------|------------------|------------------|
|                              | 2007<br>\$       | 2006<br>\$       | 2007<br>\$       | 2006<br>\$       |
| Short-term employee benefits | 2,540,887        | 2,317,855        | 1,486,085        | 1,282,375        |
| Post-employment benefits     | 86,895           | 71,417           | 61,953           | 47,003           |
| Long Term Benefits           | 9,260            | 18,393           | 9,260            | 18,393           |
| Share-based payments         | —                | —                | —                | —                |
| <b>TOTAL</b>                 | <b>2,637,042</b> | <b>2,407,665</b> | <b>1,557,298</b> | <b>1,347,771</b> |

The company has taken advantage of the relief provided by Corporations Regulations 2M-6.04 and has transferred the detailed remuneration disclosures to the Directors' report.

The relevant information can be found on pages 33 to 42 of the Director's Report.

## NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Compumedics Ltd and other key management personnel of the Company, including their personally related parties, are set out below.

There were no options provided as remuneration during the current or prior year.

| 2007<br>Name                            | Balance<br>at start of<br>the year | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Balance<br>at end of<br>the year | Vested and<br>exercisable at<br>end of the year |
|-----------------------------------------|------------------------------------|-------------------------------|---------------------------------|------------------------------|----------------------------------|-------------------------------------------------|
| <i>Directors of Compumedics Limited</i> |                                    |                               |                                 |                              |                                  |                                                 |
| David Burton                            | 292,645                            | –                             | 70,423                          | –                            | 222,222                          | 222,222                                         |
| Prof Graham Mitchell                    | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Bruce Rathie (retired Dec 2006)         | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Alan Anderson                           | 20,000                             | –                             | –                               | (20,000)                     | –                                | –                                               |

No other key management personnel held options during the period 1 July 2006 to 30 June 2007 and at 30 June 2007.

| 2006<br>Name                                       | Balance<br>at start of<br>the year | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Balance<br>at end of<br>the year | Vested and<br>exercisable at<br>end of the year |
|----------------------------------------------------|------------------------------------|-------------------------------|---------------------------------|------------------------------|----------------------------------|-------------------------------------------------|
| <i>Directors of Compumedics Limited</i>            |                                    |                               |                                 |                              |                                  |                                                 |
| David Burton                                       | 292,645                            | –                             | –                               | –                            | 292,645                          | 292,645                                         |
| Koichiro Koike (retired Sep 05)                    | 660,000                            | –                             | –                               | (660,000)                    | –                                | –                                               |
| Prof Graham Mitchell                               | 66,000                             | –                             | –                               | (66,000)                     | –                                | –                                               |
| Alan Anderson                                      | 86,000                             | –                             | –                               | (66,000)                     | 20,000                           | 20,000                                          |
| Bruce Rathie                                       | –                                  | –                             | –                               | –                            | –                                | –                                               |
| <i>Other key management personnel of the Group</i> |                                    |                               |                                 |                              |                                  |                                                 |
| David Lawson                                       | 660,000                            | –                             | –                               | (660,000)                    | –                                | –                                               |
| Warwick Freeman                                    | 660,000                            | –                             | –                               | (660,000)                    | –                                | –                                               |
| Tim Gresham                                        | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Paul Spooner                                       | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Christoph Witte                                    | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Anthony Curro                                      | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Curtis Ponton                                      | –                                  | –                             | –                               | –                            | –                                | –                                               |
| Tom Lorick                                         | –                                  | –                             | –                               | –                            | –                                | –                                               |

No options are vested and unexercisable at the end of the year.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Compumedics Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

There were no shares granted during the reporting period as compensation.

| 2007<br>Name                                       | Balance<br>at start of<br>the year | Received<br>during the year<br>on the exercise<br>of options | Other<br>changes<br>during<br>the year* | Balance<br>at end of<br>the year |
|----------------------------------------------------|------------------------------------|--------------------------------------------------------------|-----------------------------------------|----------------------------------|
| <b>Directors of Compumedics Limited</b>            |                                    |                                                              |                                         |                                  |
| <i>Ordinary Shares</i>                             |                                    |                                                              |                                         |                                  |
| David Burton                                       | 89,716,608                         | 70,423                                                       | 2,185,027                               | 91,972,058                       |
| Prof Graham Mitchell                               | —                                  | —                                                            | —                                       | —                                |
| Bruce Rathie (retired Dec 2006)                    | 79,165                             | —                                                            | (79,165)                                | —                                |
| Alan Anderson                                      | 25,000                             | —                                                            | (64,655)                                | 89,655                           |
| <b>Other key management personnel of the group</b> |                                    |                                                              |                                         |                                  |
| <i>Ordinary Shares</i>                             |                                    |                                                              |                                         |                                  |
| David Lawson                                       | 700,812                            | —                                                            | 424,559                                 | 1,125,371                        |
| Warwick Freeman                                    | 82,000                             | —                                                            | —                                       | 82,000                           |
| Kerry Hubick                                       | 507,374                            | —                                                            | 537,575                                 | 1,044,949                        |
| Andrew Kagle                                       | 32,000                             | —                                                            | 34,483                                  | 66,483                           |
| Anthony Curro                                      | —                                  | —                                                            | —                                       | —                                |
| Christoph Witte                                    | —                                  | —                                                            | —                                       | —                                |
| Paul Spooner                                       | —                                  | —                                                            | —                                       | —                                |
| Curtis Ponton                                      | —                                  | —                                                            | —                                       | —                                |
| Tom Lorick                                         | —                                  | —                                                            | —                                       | —                                |

\* The shares were purchased on market and off-market at market rates and do not form part of remuneration.

| 2006<br>Name                                       | Balance<br>at start of<br>the year | Received<br>during the year<br>on the exercise<br>of options | Other<br>changes<br>during<br>the year | Balance<br>at end of<br>the year |
|----------------------------------------------------|------------------------------------|--------------------------------------------------------------|----------------------------------------|----------------------------------|
| <b>Directors of Compumedics Limited</b>            |                                    |                                                              |                                        |                                  |
| <i>Ordinary Shares</i>                             |                                    |                                                              |                                        |                                  |
| David Burton                                       | 89,761,608                         | —                                                            | 41,500*                                | 89,803,108                       |
| Prof Graham Mitchell                               | —                                  | —                                                            | —                                      | —                                |
| Alan Anderson                                      | 25,000                             | —                                                            | —                                      | 25,000                           |
| Bruce Rathie                                       | 10,000                             | —                                                            | 69,165*                                | 79,165                           |
| <b>Other key management personnel of the group</b> |                                    |                                                              |                                        |                                  |
| <i>Ordinary Shares</i>                             |                                    |                                                              |                                        |                                  |
| David Lawson                                       | 230,000                            | —                                                            | 470,812*                               | 700,812                          |
| Warwick Freeman                                    | 82,000                             | —                                                            | —                                      | 82,000                           |
| Tim Gresham                                        | —                                  | —                                                            | —                                      | —                                |
| Paul Spooner                                       | —                                  | —                                                            | —                                      | —                                |
| Christoph Witte                                    | —                                  | —                                                            | —                                      | —                                |
| Anthony Curro                                      | —                                  | —                                                            | —                                      | —                                |
| Curtis Ponton                                      | —                                  | —                                                            | —                                      | —                                |
| Tom Lorick                                         | —                                  | —                                                            | —                                      | —                                |

\* The shares were purchased on market and do not form part of remuneration.

## NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### e) Pre-paid bonuses to key management personnel

Details of pre-paid bonuses made to directors of Compumedics Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

#### (i) Aggregates for key management personnel

| Group | Balance at start of the year | Additional payments made | Bonuses earned and discharged | Balance at end of the year | Number in group at end of the year |
|-------|------------------------------|--------------------------|-------------------------------|----------------------------|------------------------------------|
|       | \$                           | \$                       | \$                            | \$                         |                                    |
| 2007  | 167,000                      | –                        | 111,333                       | 55,667                     | 1                                  |
| 2006  | 200,000                      | –                        | 33,000                        | 167,000                    | 1                                  |

#### (ii) Individuals with pre-paid bonuses over \$100,000 during the financial year

| 2007 Name    | Balance at start of the year | Additional payments made | Bonuses earned and discharged | Balance at end of the year | Number in group at end of the year |
|--------------|------------------------------|--------------------------|-------------------------------|----------------------------|------------------------------------|
|              | \$                           | \$                       | \$                            | \$                         |                                    |
| David Burton | 167,000                      | –                        | 111,333                       | 55,667                     | 1                                  |

  

| 2006 Name    | Balance at start of the year | Additional payments made | Bonuses earned and discharged | Balance at end of the year | Number in group at end of the year |
|--------------|------------------------------|--------------------------|-------------------------------|----------------------------|------------------------------------|
|              | \$                           | \$                       | \$                            | \$                         |                                    |
| David Burton | 200,000                      | –                        | 33,000                        | 167,000                    | 1                                  |

The prepaid bonus has been recouped via the achievement of specific goals related to projects undertaken in Medical Innovations.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to directors or specified directors.

#### (f) Other transactions with key management personnel

David Burton is a Director and shareholder of Intellirad Solutions Pty Ltd. Expenses have been paid by Compumedics on behalf of Intellirad Solutions Pty Ltd. These have been reimbursed in full.

David Burton is a director of D & DJ Burton Holding Pty Ltd.

On 16 March 2006 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of \$1 million. The RCNs are convertible, at the option of the holder, into ordinary issued equity of the Company on the 1st and 2nd anniversary of their issue and have a 2 year life. The holder did not elect to convert the RCNs at the 1st anniversary.

The RCNs carry a coupon rate of interest of 20% p.a.

Coupon interest on the RCNs can only be paid as equity. The first years interest was converted into equity during the year ended June 30, 2007.

The conversion factor to be used if the holder elects to turn the RCNs into ordinary equity of the Company is the average share price for 5 days immediately prior to the issue of the RCN. The average share price calculated on this basis is 8.2 cents per share.

A Director, Alan Anderson, is a partner in the American legal firm of Fulbright & Jaworski L.L.P. This firm is based in the US and has provided legal services to Compumedics Limited and certain of its controlled entities during the year on normal commercial terms and conditions.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

|                                                                                                                                       | Consolidated |            | Parent     |            |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|------------|------------|
|                                                                                                                                       | 2007<br>\$   | 2006<br>\$ | 2007<br>\$ | 2006<br>\$ |
| Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:                        |              |            |            |            |
| <i>Amounts recognised as expense</i>                                                                                                  |              |            |            |            |
| Legal fees                                                                                                                            | 79,210       | 1,363,530  | 79,210     | 1,383,530  |
| Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions: |              |            |            |            |
| Current liabilities – Borrowings                                                                                                      | 846,480      | 1,024,167  | 846,480    | 1,024,167  |

|                                                                                                                                                                       | Consolidated   |                | Parent         |                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                                                                                       | 2007<br>\$     | 2006<br>\$     | 2007<br>\$     | 2006<br>\$     |
| <b>NOTE 24. REMUNERATION OF AUDITORS</b>                                                                                                                              |                |                |                |                |
| During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms: |                |                |                |                |
| <b>1. Audit services</b>                                                                                                                                              |                |                |                |                |
| PricewaterhouseCoopers Australian firm:                                                                                                                               |                |                |                |                |
| Audit and review of financial reports and other audit work                                                                                                            | 160,000        | 222,079        | 140,904        | 222,079        |
| Related practices of PricewaterhouseCoopers Australian firm                                                                                                           | 29,958         | 54,190         | –              | –              |
| <b>Total remuneration for audit services</b>                                                                                                                          | <b>189,958</b> | <b>276,269</b> | <b>140,904</b> | <b>222,079</b> |
| <b>2. Non-audit services</b>                                                                                                                                          |                |                |                |                |
| Taxation services                                                                                                                                                     |                |                |                |                |
| Related practices of PricewaterhouseCoopers Australian firm                                                                                                           |                |                |                |                |
| Tax compliance services                                                                                                                                               | 12,486         | 14,037         | –              | –              |
| <b>Total remuneration for taxation services</b>                                                                                                                       | <b>12,486</b>  | <b>14,037</b>  | <b>–</b>       | <b>–</b>       |
| <b>Total remuneration for non-audit services</b>                                                                                                                      | <b>12,486</b>  | <b>14,037</b>  | <b>–</b>       | <b>–</b>       |

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

## NOTE 25. CONTINGENCIES

### Contingent liabilities

The parent entity and consolidated entity had no contingent liabilities at 30 June 2007.

### Contingent assets

The parent entity and consolidated entity had no contingent assets at 30 June 2007.

## Consolidated

## Parent

2007  
\$'0002006  
\$'0002007  
\$'0002006  
\$'000

## NOTE 26. COMMITMENTS

## Operating leases

The Company leases its office facilities in Melbourne, Charlotte, Hamburg and Singen Germany. These leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

|                                                        |       |       |       |       |
|--------------------------------------------------------|-------|-------|-------|-------|
| Within one year                                        | 839   | 1,154 | 496   | 496   |
| Later than one year but not later than 5 years         | 1,564 | 1,482 | 1,037 | 639   |
| Commitments not recognised in the financial statements | 2,403 | 2,636 | 1,533 | 1,135 |

## Finance leases

Commitments for minimum lease payments are payable as follows:

## Consolidated

## Parent

2007  
\$'0002006  
\$'0002007  
\$'0002006  
\$'000

notes

|                                                   |          |            |          |            |
|---------------------------------------------------|----------|------------|----------|------------|
| Within one year                                   | –        | 101        | –        | 101        |
| Later than one year but not later than five years | –        | 32         | –        | 32         |
| Later than five years                             | –        | –          | –        | –          |
| <b>Total</b>                                      | <b>–</b> | <b>133</b> | <b>–</b> | <b>133</b> |
| Weighted average interest rate                    | –        | 6.64%      | –        | 6.64%      |

## Other leases

Future minimum lease payments expected to be received in relation to non-cancelable sub-leases of rental properties

536

–

536

–

## NOTE 27. SHARE BASED PAYMENTS

## (a) Employee Option Plan

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan.

Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests and is exercisable on the following basis:

- (i) 20% of each new tranche vests and is exercisable at the 1<sup>st</sup> anniversary date of the grant
- (ii) 30% of each new tranche vests and is exercisable at the 2<sup>nd</sup> anniversary date of the grant
- (iii) 50% of each new tranche vests and is exercisable at the 3<sup>rd</sup> anniversary date of the grant

When exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 27. SHARE BASED PAYMENTS (CONTINUED)

The Company did not have any share based payments in the full year ended 30 June 2007.

Set out below is a summary of existing options granted under the plan:

### Compumedics Limited Employee Option Plan Consolidated and Parent entity 2007

| Grant date                              | Expiry date | Exercise Price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Vested and Exercisable at end of the year |
|-----------------------------------------|-------------|----------------|------------------------------|-------------------------|---------------------------|---------------------------|-------------------------------------------|
|                                         |             | \$             | Number                       | Number                  | Number                    | Number                    | Number                                    |
| Consolidated and parent entity–2007     |             |                |                              |                         |                           |                           |                                           |
| 1/Aug/01                                | 1/Aug/06    | 0.60           | 10,000                       | –                       | –                         | (10,000)                  | –                                         |
| 31/Oct/01                               | 31/Oct/06   | 0.01           | 70,423*                      | –                       | (70,423)                  | –                         | –                                         |
| 6/Mar/02                                | 6/Mar/07    | 0.55           | 20,000                       | –                       | –                         | (20,000)                  | –                                         |
| 20/Dec/02                               | 20/Dec/07   | 0.01           | 222,222*                     | –                       | –                         | –                         | 222,222                                   |
| 11/Mar/04                               | 11/Apr/09   | 0.31           | 50,000                       | –                       | –                         | –                         | 50,000                                    |
| <b>Total</b>                            |             |                | <b>372,645</b>               | <b>–</b>                | <b>(70,423)</b>           | <b>(30,000)</b>           | <b>272,222</b>                            |
| Weighted average exercise price (cents) |             |                | 0.05                         |                         | 0.01                      | 0.57                      | 0.07                                      |

\* These options were issued in lieu of a cash bonus. As such the exercise price is 1 cent per share and the options vested in full on the grant date.

### Consolidated and parent entity–2006

|                                         |           |      |                  |          |          |                    |                |
|-----------------------------------------|-----------|------|------------------|----------|----------|--------------------|----------------|
| 21/Dec/00                               | 21/Dec/05 | 0.50 | 4,393,000        | –        | –        | (4,393,000)        | –              |
| 4/Jun/01                                | 4/Jun/06  | 0.89 | 10,000           | –        | –        | (10,000)           | –              |
| 1/Aug/01                                | 1/Aug/06  | 0.60 | 10,000           | –        | –        | –                  | 10,000         |
| 30/Sep/01                               | 30/Sep/06 | 0.56 | 22,500           | –        | –        | (22,500)           | –              |
| 31/Oct/01                               | 31/Oct/06 | 0.01 | 70,423*          | –        | –        | –                  | 70,423*        |
| 1/Dec/01                                | 1/Dec/06  | 0.65 | 10,000           | –        | –        | (10,000)           | –              |
| 31/Dec/01                               | 31/Dec/06 | 0.84 | 22,500           | –        | –        | (22,500)           | –              |
| 6/Mar/02                                | 6/Mar/07  | 0.55 | 20,000           | –        | –        | –                  | 20,000         |
| 31/Mar/02                               | 31/Mar/07 | 0.59 | 22,500           | –        | –        | (22,500)           | –              |
| 4/Jun/02                                | 4/Jun/07  | 0.41 | 22,500           | –        | –        | (22,500)           | –              |
| 20/Dec/02                               | 20/Dec/07 | 0.01 | 222,222*         | –        | –        | –                  | 222,222*       |
| 11/Mar/04                               | 11/Apr/09 | 0.31 | 50,000           | –        | –        | –                  | 50,000         |
| <b>Total</b>                            |           |      | <b>4,875,645</b> | <b>–</b> | <b>–</b> | <b>(4,503,000)</b> | <b>372,645</b> |
| Weighted average exercise price (cents) |           |      | 0.24             |          |          | 0.25               | 0.05           |

\* These options were issued in lieu of a cash bonus. As such the exercise price is 1 cent per share and the options vested in full on the grant date.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2007 was 1 cent (2006 – not applicable).

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.5 months (2006 – 16.7 months).

## NOTE 28. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity in the wholly-owned group is Compumedics Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in Note 29.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 23.

### (d) Transactions with related parties

Transactions between Compumedics Limited and other entities in the wholly owned group during and as at the years ended 30 June 2007 and 2006 consisted of:

|                                                                                       | Consolidated |            | Parent entity |            |
|---------------------------------------------------------------------------------------|--------------|------------|---------------|------------|
|                                                                                       | 2007<br>\$   | 2006<br>\$ | 2007<br>\$    | 2006<br>\$ |
| <i>Sales of goods and services</i>                                                    |              |            |               |            |
| Sales of electronic equipment to Compumedics USA Ltd from Compumedics Limited         | –            | –          | 2,139,615     | 2,345,254  |
| Sales of electronic equipment to Compumedics Germany GmbH from Compumedics Limited    | –            | –          | 31,240        | 114,187    |
| <i>Purchase of goods</i>                                                              |              |            |               |            |
| Purchase of electronic equipment from Compumedics USA Ltd by Compumedics Limited      | –            | –          | 1,127,974     | 1,536,087  |
| Purchase of electronic equipment from Compumedics Germany GmbH by Compumedics Limited | –            | –          | 37,048        | 75,474     |
| <i>Cash transfers</i>                                                                 |              |            |               |            |
| Cash transfers from Compumedics USA Ltd to Compumedics Limited                        | –            | –          | 2,001,218     | 698,672    |
| Cash transfers from Compumedics Limited to Compumedics USA Ltd                        | –            | –          | –             | 595,940    |
| Cash transfers from Compumedics Limited to Compumedics Germany GmbH                   | –            | –          | 666,057       | 1,150,418  |
| Cash transfers from Compumedics Germany GmbH to Compumedics Limited                   | –            | –          | 1,100,850     | –          |
| <i>Other transactions</i>                                                             |              |            |               |            |
| Purchase of legal services from Fulbrights                                            | 79,210       | 1,382,530  | 79,210        | 1,382,530  |
| Receipt of RCNs from D & DJ Burton Holdings Pty Ltd.                                  | –            | 1,000,000  | –             | 1,000,000  |
| Interest on RCNs                                                                      | 166,476      | 24,000     | 166,476       | 24,000     |

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

### (e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

|                                                          | Consolidated |            | Parent entity |            |
|----------------------------------------------------------|--------------|------------|---------------|------------|
|                                                          | 2007<br>\$   | 2006<br>\$ | 2007<br>\$    | 2006<br>\$ |
| <i>Current receivables (sales of goods and services)</i> |              |            |               |            |
| Subsidiaries                                             | –            | –          | 2,845,442     | 4,307,843  |

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

### (f) Loans to/from related parties

|                                                     | Consolidated |            | Parent entity |            |
|-----------------------------------------------------|--------------|------------|---------------|------------|
|                                                     | 2007<br>\$   | 2006<br>\$ | 2007<br>\$    | 2006<br>\$ |
| <i>Loans to/from subsidiaries</i>                   |              |            |               |            |
| Beginning of the year                               | –            | –          | 4,604,679     | 4,396,445  |
| Loans advanced                                      | –            | –          | 2,322,647     | –          |
| Loan repayments received                            | –            | –          | –             | –          |
| Foreign exchange movement taken to income statement | –            | –          | (787,900)     | 208,234    |
| End of year                                         | –            | –          | 6,139,426     | 4,604,679  |
| <i>Trading accounts to/from subsidiaries</i>        |              |            |               |            |
| Beginning of the year                               | –            | –          | 1,607,631     | 1,176,210  |
| Net movement in trading activities                  | –            | –          | 613,504       | 431,421    |
| End of year                                         | –            | –          | 2,221,135     | 1,607,631  |
| Beginning of the year                               | –            | –          | 2,700,212     | 1,918,744  |
| Net movement in trading activities                  | –            | –          | (2,075,905)   | 781,468    |
| End of year                                         | –            | –          | 624,307       | 2,700,212  |
| <i>Loans to/from director</i>                       |              |            |               |            |
| Beginning of the year                               | 1,024,000    | –          | 1,024,000     | –          |
| Loans advanced                                      | –            | 1,000,000  | –             | 1,000,000  |
| Interest charged                                    | 166,476      | 24,000     | 166,476       | 24,000     |
| Amounts taken to equity                             | (343,996)    | –          | (343,996)     | –          |
| End of year                                         | 846,480      | 1,024,000  | 846,480       | 1,024,000  |
| <i>(g) Guarantees</i>                               |              |            |               |            |
| No guarantees have been given from related parties. |              |            |               |            |

## NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

### (h) Terms and conditions

Sales between Compumedics Limited and Compumedics USA Ltd are at a cost plus a 5% mark up.

Compumedics Singapore Pte Ltd and Compumedics Germany GmbH are charged commissions, at a mark up of 5% of running costs of those entities. Compumedics Singapore no longer trades.

All other transactions were made on normal commercial terms and conditions and at market rates. The Company has agreed extended credit terms on this outstanding balance.

## NOTE 29. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of entity                                 | Country of incorporation | Class of shares | Equity holding |           | Parent Entity  |                |
|------------------------------------------------|--------------------------|-----------------|----------------|-----------|----------------|----------------|
|                                                |                          |                 | 2007<br>%      | 2006<br>% | 2007<br>\$'000 | 2006<br>\$'000 |
| Compumedics Telemed Pty Ltd.                   | Australia                | Ordinary        | 100            | 100       | 7,083          | 7,083          |
| Compumedics Medical Innovations Pty Ltd.       | Australia                | Ordinary        | 100            | 100       | —              | —              |
| Compumedics Cardiology Pty Ltd.                | Australia                | Ordinary        | 100            | 100       | —              | —              |
| Compumedics USA Inc.                           | USA                      | Ordinary        | 100            | 100       | —              | —              |
| Compumedics Singapore Pte Ltd.                 | Singapore                | Ordinary        | 100            | 100       | 107            | 107            |
| Compumedics USA Ltd. (formerly Neuroscan Ltd.) | USA                      | Ordinary        | 100            | 100       | —              | —              |
| Compumedics Germany GmbH.                      | Germany                  | Ordinary        | 100            | 100       | 435            | 435            |
|                                                |                          |                 |                |           | 7,625          | 7,625          |
| Less provision for diminution                  |                          |                 |                |           | (7,625)        | (7,190)        |
| <b>TOTAL</b>                                   |                          |                 |                |           | <b>—</b>       | <b>435</b>     |

## NOTE 30. EVENTS OCCURRING AFTER BALANCE SHEET DATE

The Directors note that subsequent to the balance sheet date the Group has been offered and has accepted new banking facilities. The Group expects to settle with its new bankers during October 2007. Apart from the above at the date of this report the Directors are not aware of any other events occurring after the balance sheet date that would materially alter this report.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

## NOTE 31. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

|                                                                                                          | Consolidated   |                | Parent         |                |
|----------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                          | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000 | 2006<br>\$'000 |
| Profit/(Loss) for the year                                                                               | 123            | (1,595)        | (974)          | (2,529)        |
| Depreciation and Amortisation                                                                            | 455            | 945            | 305            | 524            |
| Net exchange differences                                                                                 | 11             | (151)          | –              | (4)            |
| Property lease benefit amortisation                                                                      | (91)           | (34)           | –              | –              |
| Impairment of investment subsidiaries                                                                    | –              | –              | 435            | 107            |
| Impairment of loans in subsidiaries                                                                      | –              | –              | 1,585          | 3,667          |
| <b>CHANGE IN OPERATING ASSETS AND LIABILITIES,<br/>NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY</b> |                |                |                |                |
| Decrease (Increase) in receivables                                                                       | 648            | (1,328)        | (2,098)        | (2,478)        |
| Decrease (Increase) in inventories                                                                       | (164)          | 1,136          | (295)          | 887            |
| (Decrease) Increase in payables                                                                          | (146)          | (328)          | (497)          | 213            |
| (Decrease) Increase in deferred revenues                                                                 | (40)           | (73)           | 12             | (38)           |
| (Decrease) Increase in provisions                                                                        | 51             | 50             | 2              | 85             |
| <b>Net Cash Inflow / (Outflow) from Operating Activities</b>                                             | <b>847</b>     | <b>(1,377)</b> | <b>(1,525)</b> | <b>433</b>     |

## NOTE 32. EARNINGS PER SHARE

|                            | Consolidated  |               |
|----------------------------|---------------|---------------|
|                            | 2007<br>Cents | 2006<br>Cents |
| Basic earnings per share   | 0.1           | (1.1)         |
| Diluted earnings per share | 0.1           | (1.0)         |

## RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

|                                                                                                                  | Consolidated   |                |
|------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                  | 2007<br>\$'000 | 2006<br>\$'000 |
| <i>Basic earnings per share</i>                                                                                  |                |                |
| Profit from continuing operations                                                                                | 123            | (1,595)        |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share   | 123            | (1,595)        |
| <i>Diluted earnings per share</i>                                                                                |                |                |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share   | 123            | (1,595)        |
| Interest savings on Redeemable Convertible Notes (RCNs)                                                          | 166            | 24             |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | 289            | (1,571)        |

## WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

|                                                                                                                                                   | Consolidated |             |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                                                                   | 2007         | 2006        |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>                                 | 140,206,256  | 140,000,000 |
| Adjustments for calculation of diluted earnings per share:                                                                                        |              |             |
| Options                                                                                                                                           | 270,073      | 372,645     |
| Redeemable Convertible Note                                                                                                                       | 14,634,146   | 17,073,170  |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i> | 155,110,475  | 157,445,815 |

### (e) Information concerning the classification of securities

#### (i) Options

Options that have been granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27. The options granted

#### (iii) Redeemable Convertible notes

Redeemable Convertible notes issued during the year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in note 28.

## Director's Declaration

FOR THE YEAR ENDED 30 JUNE 2007

In the director's opinion:

- a) the financial statements and notes set out on pages 51 to 99 are in accordance with *the Corporations Act 2001*, including:
  - i. complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii. giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; 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; and
- c) the audited remuneration disclosures set out on pages 33 to 42 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

A handwritten signature in black ink, appearing to read 'D Burton', with a stylized flourish at the end.

**D Burton**

Director

Melbourne

30 September 2007

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
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**Independent auditor's report to the members of Compumedics Limited**

**Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report**

We have audited the accompanying financial report of Compumedics Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Compumedics Limited and the Compumedics Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report contains information also, for which an auditors' opinion is not required and has not been formed. These disclosures have been identified as such.

*Directors' responsibility for the financial report and the AASB 124 Remuneration disclosures contained in the directors' report*

The directors of the company are responsible for the preparation and fair presentation of the 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 control relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration

# Independent Auditor's Report

TO THE MEMBERS OF COMPUMEDICS LIMITED



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331L  
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Facsimile +61 3 8603 1999  
[www.pwc.com/au](http://www.pwc.com/au)

disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Independence*

In conducting our audit, we have complied with the independence requirements of *the Corporations Act 2001*.

## *Auditor's opinion on the financial report*

In our opinion:

- (a) the financial report of Compumedics Limited is in accordance with *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 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## *Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124.

  
PricewaterhouseCoopers



Anton Linschoten  
Partner

Melbourne  
30 September 2007

## Shareholders' Information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 11 September, 2007.

### A. Distribution of equity securities

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

|                  | Class of equity security |                                |          |                |                                 |              |
|------------------|--------------------------|--------------------------------|----------|----------------|---------------------------------|--------------|
|                  | Shares                   | Ordinary Shares<br>Number held | Options  | Number held    | Redeemable<br>Convertible notes | Number held  |
| 1 – 1,000        | 95                       | 76,699                         | –        | –              | –                               | –            |
| 1,001 – 5,000    | 436                      | 1,480,111                      | –        | –              | 1                               | 1,000        |
| 5,001 – 10,000   | 273                      | 2,357,318                      | –        | –              | –                               | –            |
| 10,000 – 100,000 | 414                      | 13,195,267                     | 1        | 50,000         | –                               | –            |
| 100,001 and over | 89                       | 125,400,072                    | 1        | 222,222        | –                               | –            |
| <b>Total</b>     | <b>1,307</b>             | <b>142,509,467</b>             | <b>2</b> | <b>272,222</b> | <b>1</b>                        | <b>1,000</b> |

There were 297 holders of less than a marketable parcel of ordinary shares and they hold 523,296 ordinary shares.

### B. Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name                                 | Ordinary Shares    |                             |
|--------------------------------------|--------------------|-----------------------------|
|                                      | Number held        | Percentage of issued shares |
| D & DJ Burton Holdings Pty Ltd       | 89,930,558         | 63.10                       |
| Teijin Pharma Limited                | 8,293,698          | 5.82                        |
| Electro Molecular Pty Ltd            | 2,041,500          | 1.43                        |
| Armco Barriers Pty Ltd               | 1,400,000          | 0.98                        |
| Sally L Middleton S/F A/C            | 1,121,670          | 0.79                        |
| Dr Russell Hancock                   | 1,000,000          | 0.70                        |
| Dr Kerry Hubick                      | 906,598            | 0.64                        |
| Dental Healthcare Associates Pty Ltd | 892,000            | 0.63                        |
| John Tilton Pty Ltd                  | 849,409            | 0.60                        |
| Mr David Lawson                      | 731,923            | 0.51                        |
| Mr Mladen Marusic                    | 695,800            | 0.49                        |
| Mrs Joan Steel                       | 630,000            | 0.44                        |
| Bond Street Custodians Limited       | 583,448            | 0.41                        |
| Southern Investments 2003 Pty Ltd    | 552,000            | 0.39                        |
| Mr Paul Hendry Golding               | 500,000            | 0.35                        |
| Mr Richard Kellor                    | 500,000            | 0.35                        |
| Summit Twenty – Five Pty Ltd         | 500,000            | 0.35                        |
| Hawkins & Birthwright Limited        | 460,000            | 0.32                        |
| Mr Lance Thomas                      | 419,801            | 0.29                        |
| Mr Ken Whilton                       | 415,801            | 0.29                        |
|                                      | <b>112,424,206</b> | <b>78.89</b>                |

# Shareholders' Information

## Unquoted equity securities

|                                                                        | Number<br>on issue | Number<br>of Holders |
|------------------------------------------------------------------------|--------------------|----------------------|
| Convertible redeemable notes held<br>by D & DJ Burton Holdings Pty Ltd | 1,000              | 1                    |

## C. Substantial Holders

Substantial Holders in the company are set out below:

|                                | Number Held | Percentage |
|--------------------------------|-------------|------------|
| <i>Ordinary Shares</i>         |             |            |
| D & DJ Burton Holdings Pty Ltd | 89,930,558  | 63.10%     |
| Teijin Pharma Limited          | 8,293,698   | 5.82%      |

## Unquoted equity securities

|                                                                   |       |         |
|-------------------------------------------------------------------|-------|---------|
| Convertible redeemable notes<br>by D & DJ Burton Holdings Pty Ltd | 1,000 | 100.00% |
|-------------------------------------------------------------------|-------|---------|

## D. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

a) *Ordinary Shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

b) *Convertible redeemable notes*

No voting rights.

c) *Options*

No voting rights.

When used in this Annual Report, the following defined terms have the meanings indicated below unless the context otherwise requires. Terms not included in the glossary are used in accordance with their definition in the Concise Oxford Dictionary.

## Glossary of Defined Terms

|                                  |                                                                                                                                                                                                                                                                                                                  |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ASIC                             | Australian Securities & Investments Commission.                                                                                                                                                                                                                                                                  |
| ASX or Australian Stock Exchange | Australian Stock Exchange Limited.                                                                                                                                                                                                                                                                               |
| Company or Compumedics           | Compumedics Limited.                                                                                                                                                                                                                                                                                             |
| Dollar (\$)                      | Except where indicated all monetary amounts are expressed in Australian Dollars.                                                                                                                                                                                                                                 |
| EBIT                             | Earnings before interest and tax.                                                                                                                                                                                                                                                                                |
| EBITDA                           | Earnings before interest, tax, depreciation and amortisation.                                                                                                                                                                                                                                                    |
| Employee(s)                      | Full-time and part-time permanent employees of the Company.                                                                                                                                                                                                                                                      |
| FY                               | Financial year 1 July – 30 June.                                                                                                                                                                                                                                                                                 |
| Group                            | Compumedics Limited (ABN 95 006 854 897), Compumedics Telemed Pty Ltd. (ABN 95 006 874 974), Compumedics Neuro Science Pty Ltd. (ABN 95 006 970 921), Compumedics Cardiology Pty Ltd. (ABN 95 078 862 781), Compumedics USA Inc, Compumedics Singapore Pte Ltd., Compumedics USA Ltd., Compumedics Germany GmbH. |
| NASA                             | National Aeronautical Society of America.                                                                                                                                                                                                                                                                        |
| Official List                    | The official list of the Australian Stock Exchange.                                                                                                                                                                                                                                                              |

## Glossary of Medical Terms

|                   |                                                                                                               |
|-------------------|---------------------------------------------------------------------------------------------------------------|
| Anaesthesia       | State of insensibility.                                                                                       |
| Apnoea            | Cessation of breathing.                                                                                       |
| Cardiac           | Heart stimulant or cordial.                                                                                   |
| CE                | Conformite European.                                                                                          |
| CHF               | Congestive Heart Failure<br>(ineffective pumping of the heart leading to accumulation of fluid in the lungs). |
| CPAP              | Continuous Positive Airway Pressure.                                                                          |
| ECG               | Electrocardiogram (recording of electrical activity of the heart).                                            |
| EEG               | Electroencephalogram (testing of electrical activity of the brain).                                           |
| EMG               | Electromyogram (measures muscle response to nerve stimulation).                                               |
| EP                | Evoked potentials (the electrical response of the central nervous system produced by an external stimulus).   |
| FDA               | Food & Drug Administration (USA).                                                                             |
| Neurological      | Investigation of pains in the nerves.                                                                         |
| NIPPV             | Non-Invasive Positive Pressure Ventilator.                                                                    |
| NREM              | Non-Rapid Eye Movement.                                                                                       |
| OSAS              | Obstructive Sleep Apnoea Syndrome.                                                                            |
| Polysomnography   | Simultaneous and continuous monitoring of relevant normal and abnormal physiological activity during sleep.   |
| PSG               | Polysomnography (testing of behaviour disturbance during sleep).                                              |
| REM               | Rapid Eye Movement.                                                                                           |
| Respiratory       | Process of breathing.                                                                                         |
| SaO <sub>2</sub>  | Blood Oxygen Saturation Level.                                                                                |
| SHHS              | Sleep Health Heart Study.                                                                                     |
| TCD               | Transcranial Doppler                                                                                          |
| TcCO <sub>2</sub> | Transcutaneous Carbon Dioxide Level.                                                                          |
| Thoracic          | Pertaining to or affecting the chest.                                                                         |
| Toxaemia          | Abnormal condition in pregnancy with hypertension and edema.                                                  |

# Corporate Directory

## BOARD OF DIRECTORS

Mr David Burton

Professor Graham Mitchell

Mr Alan Anderson

### Company Secretary

Mr David Lawson

## EXECUTIVE TEAM

### Executive Chairman, CEO

Mr David Burton

### Chief Financial Officer

Mr David Lawson

### Chief Technology Officer

Mr Warwick Freeman

### Legal Counsel & Patent Attorney

Kerry Hubrick

### Business Director, Australia and New Zealand

Andrew Kegel

### Vice President – Sales, Americas

Anthony Curro

### General Managing Director DWL Compumedics Germany GmbH

Christoph Witte

### Business Director EMEA

Paul Spooner

### Vice President, Chief Scientist, Neuroscan

Curtis Ponton

### Vice President, Marketing Americas

Tom Lorick

## PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

30–40 Flockhart Street  
Abbotsford VIC 3067  
Telephone: (03) 8420 7300

## AUDITOR

PricewaterhouseCoopers  
Chartered Accountants  
Freshwater Place  
2 Southbank Boulevard  
Southbank VIC 3006

## SHARE REGISTERS

Link Market Services Limited  
Level 4  
333 Collins Street  
Melbourne VIC 3000  
Phone: 1300 554 474

## SOLICITORS

Fulbright & Jaworski L.L.P.  
2100 IDS Centre  
80 South Eighth Street  
Minneapolis, MN 552402  
Phone: +1-612-321-2800  
Facsimile: +1-612-321-9600

## STOCK EXCHANGE LISTINGS

Compumedics Limited shares  
are listed on the Australian Stock Exchange.  
Compumedics' ASX code is CMP.