

SUN BIOMEDICAL LIMITED
(A.B.N. 18 001 285 230)
(formally Harrington Group Limited)

And Controlled Entities

Annual Report
30 June 2008

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

REPORT OF THE DIRECTORS – 30 JUNE 2008

Your Directors present their report on the company and its controlled entities for the financial year ended 30 June 2008.

Directors

The names of Directors in office at any time during or since the end of the year are:

Mr Peter King – Chairman

Mr Jim Hallam – Non Executive Director (appointed 24 October 2007)

Mr Andrew Paice – Non Executive Director from 29 February 2008 (previously Chief Financial Officer and Executive Director)

Mr Brian Andrews – Managing Director (resigned 22 February 2008)

The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

During the year the principal activities of the economic entity, constituted by Sun Biomedical Limited and the entities it controlled, consisted of the commercialisation of Sun Biomedical Laboratories Inc. illicit drug testing portfolio of products with a specific focus on their unique proprietary oral-fluid based drug testing device, OraLine.

There were no significant changes in the nature of these activities during the year.

Results for the Year

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss after income tax	(3,557,390)	(2,421,661)	(3,785,084)	(2,664,990)

Dividends

No dividends have been paid or proposed since the last Director's Report dated 27 September 2007.

Review of Operations

The consolidated loss for the 12 months ended 30 June 2008 was \$3,557,390 compared to a loss of \$2,421,661 for the previous 12 months ended 30 June 2007. Some of the key features of the year ended 30 June 2008 include:

- The appointment of Jack Kerins as chief executive of United States based Sun Biomedical Laboratories Inc (SBL);
- The rationalization of the Company's cost structure by focusing on the Company's operations in the United States. This involved the resignation of senior management in Australia and a reduction in operating costs of approximately \$600,000 per annum.
- The execution of a joint venture agreement with Shanghai SiYi Biotechnology Co. Limited, a China based company, for the assembly and sale of OraLine products for use by the Ministry of Public Security and future non-governmental Chinese customers.
- The signing of an agreement with BioScreens, Inc to develop a quality, low cost urine testing cup.

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- The execution of an exclusive marketing and distribution agreement with MediNat for the supply of OraLine in Russia.
- The completion of successful capital raisings in August 2007, December 2007 and January 2008 through which the Company raised a total of \$3,434,623 (before issue costs of \$356,343);
- In March 2008, the Company entered into a deed of settlement in relation to the claim against Avitar Technologies, Inc. Although no cash consideration was involved under the settlement, the Directors believe that the outcome of this settlement was positive for the Company as, under the terms of the settlement, Avitar acknowledged the validity of the Company's patents.
- The restructure of the amount owing to Dr Ming and Alice Sun, the founders of SBL, in relation to the payment of US\$980,000 as final consideration for the acquisition of SBL in August 2006. This is discussed further below in Matters Subsequent to the End of the Financial Year.
- On 27 June 2008 the Company advised that it had lodged a prospectus with ASIC to raise a minimum amount of \$2,000,000 by way of a Renounceable Rights Issue of four New Ordinary Shares for every five Shares held at a price of \$0.01 plus one free attaching Option for every two New Ordinary Shares subscribed for. The objectives of the capital raising are to fund the payments of amounts owing in respect to the SBL acquisition, the commercialization of the Chinese joint venture with Shanghai SiYi, the development of the BioScreens Cup and the cost of attaining FDA 510(k) clearance for point-of-care sale of the VisuaLine product, the development and marketing of OraLine VIII, developing the Company's compliance with Good Manufacturing Practices and working capital to support the ongoing business activities of the Company. The Rights Issue was completed and shares allotted on 14 August 2008. In addition, the company has raised an additional \$998,963 via the placement of Shortfall Securities bringing the total raising to \$2,998,963.

The table below summarizes the application of the monies raised:

Sources of funds	\$m
Rights Issue	2.000
Shortfall Placement	0.999
	2.999
Conversion of Ming Sun promissory note in ordinary shares ¹	0.550
Total sources	3.549
Applications of funds	
Fees payable to underwriters including amounts payable to sub underwriters and broker placements	0.247
Capital raising costs (including legal, accounting, ASX, registry)	0.144
Repayment of Ming Sun promissory note (including equity conversion) ¹	1.114
Total applications	1.505
Net cash available to fund business initiatives & working capital	2.044

Note 1: Assumes AUD/USD exchange rate of 0.88

Agreement with Ming and Alice Sun

In June 2008, the Company reached an agreement with Dr Ming and Alice Sun, the founders of SBL, in relation to payment of US\$980,000 as final consideration for the acquisition of SBL. The Suns agreed to:

- convert US\$490,000 into Shares at \$0.01 per Share, the same issue price as under the Rights Issue;
- be issued with Options on the basis of one Option for every two Shares issued to the Suns under paragraph (a) above, the same ratio as offered under the Rights Issue; and
- receive a US\$490,000 payment following the Rights Issue,

as settlement for the payment of US\$980,000.

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The conversion under paragraph (a) and the issue of options under paragraph (b) occurred on 25 August 2008. The payment of USD \$490,000 was made on 5 September 2008.

Financial Position

The net assets of the economic entity have decreased by \$406,613 from 30 June 2007 to \$1,008,159 as at 30 June 2008. This decrease has largely resulted from the following factors:

- decrease in Cash and Cash Equivalents of \$328,111;
- increase in Receivables and Inventories of \$196,916;
- decrease in Intangible Assets – Sun Biomedical Laboratories Inc. Intellectual Property of \$1,491,706;
- increase in Amortisation of Intellectual Property of \$542,292;
- decrease in Trade and Other Payables of \$124,291; and
- decrease in Promissory Note due to vendor of Sun Biomedical Laboratories Inc. of \$613,708 (repayment of \$466,813 and foreign exchange gain of \$146,895).
- payment of \$466,813 under the terms of the Sun Biomedical Laboratories Inc. acquisition.

The operating loss for the year includes a write down of \$1,000,000 in the carrying value of the patents covering the VisuaLine and OraLine products following a value in use valuation.

The directors believe the group is in a stable financial position following the Rights Issue and will continue to focus on the commercialisation opportunities within the Sun Biomedical Laboratories Inc. product range and intellectual property.

The Economic Entity's working capital deficiency, being current assets less current liabilities, has declined from (\$767,551) in 2007 to (\$841,239) as at 30 June 2008 which is prior to the receipt of proceeds from the rights issue.

Significant Transactions

Significant transactions that occurred during the year included:-

- the successful completion of a fully underwritten Rights Issue to raise \$2,391,550 before costs
- the successful completion of a share placement in December 2007 raising \$913,105 before costs
- the successful completion of a share placement plan in January 2008 raising \$129,967 before costs
- the announcement of an underwritten Rights Issue to raise a minimum of \$2,000,000 before costs (completed post balance date)

Significant Changes in State of Affairs

Apart from the matters mentioned above and elsewhere in this report there were no significant changes in the state of affairs during the year.

Matters Subsequent to the End of the Financial Year

The Rights Issue discussed above was completed and securities were allotted on 14 August 2008. The total amount raised was \$2.0m. In addition, the company has raised an additional \$998,963 via the placement of Shortfall Securities bringing the total raising to \$2,998,963.

On 21 August 2008, Dr Sun, the founder of SBL was issued with 56,186,217 shares and 28,093,109 options in part settlement of USD 490,000 of the final outstanding payment of USD 980,000 due to him by the Company for the acquisition of SBL. The remaining USD 490,000 was paid to him on 5 September 2008 from the proceeds of the Rights Issue.

Except for the matters discussed above no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

Likely Developments

Disclosure of 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.

Report of the Directors (Continued)

Information on Directors

PETER KING

BA (Hons Syd) MA (Oxon)

Non Executive Chairman

Experience

A barrister, Rhodes scholar and former Federal Member of Parliament and director of public and charitable institutions in the area of Aboriginal youth justice and the welfare of young children , with a breadth of international experience and contacts which are complimentary to the business. His knowledge and past involvement with government is seen as being of major benefit to the Company.

Directorships held in other listed entities:- Nil

Directorships held in the past three years in other listed entities:- Nil

JIM HALLAM

BEC, CA

Non Executive Director

Experience

Managing Director and founder of Turnberry Funds Management Pty Ltd (TFM), a specialist funds management company in the small to medium enterprise private equity sector.. Prior to establishing TFM, he spent nine years at Hastings Funds Management as its Chief Financial Officer and Chief Operating Officer of the publicly listed Hastings Diversified Utilities Fund. He also spent four years at AIDC Ltd where he originated and managed investments in the management buy-in/out and expansionary capital sector. TFM manages Log Creek's interest in the company.

Directorships held in other listed entities:- Nil;

Directorships held in the past three years in other listed entities:- Nil

ANDREW PAICE

B. Bus (Accounting) Swinburne

Non-Executive Director

Experience

Extensive experience in financial management roles at a senior executive and director level, both in Australia and overseas in the medical device and pharmaceutical sector.

Directorships held in other listed entities:- Nil

Directorships held in the past three years in other listed entities:- Nil

BRIAN ANDREWS

B Sc, B Bus, MBA(Monash University)

Managing Director

Resigned 22 February 2008

Experience

Extensive experience in large and multinational corporations in sales and marketing positions in senior executive roles both in Australia and overseas. He is responsible for the Company's corporate development, its focus and strategy, and for its public and investor relations.

Directorships held in other listed entities:- Nil;

Directorships held in the past three years in other listed entities:- Nil

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Report of the Directors (Continued)

Information on Company Secretary

Alfonso M G Grillo
BA LLB

Company Secretary

Experience

Alfonso Grillo is a partner with Tress Cox Lawyers and has expertise in various aspects of commercial law, including company meeting practice and corporate governance procedures, fundraising and fundraising documentation, ASX Listing Rules and mergers and acquisitions.

Alfonso is currently also Company Secretary of ASX listed Panaegis Gold Mines Limited and Essential Petroleum Resources Limited. Alfonso has held the position of company secretary of Sun Biomedical Limited since 21 June 2007.

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Report of the Directors (Continued)

Directors' Interests in Shares and Options

Directors	Notes	Existing Shares	Existing Options
Peter King or his nominees	(a)	-	750,000
Andrew Paice or his nominees	(b)	9,209,250	2,546,500
Jim Hallam		-	-

- (a) Mr King holds 750,000 unlisted 24.86 cent options exercisable on or before 31 December 2008.,
(b) Mr Paice holds 9,209,250 ordinary shares , 2,046,500 listed 2 cent options expiring on 30 November 2010 and 500,000 10 cent unlisted options expiring 30 June 2009.

The number of directors meetings attended by each of the directors of the Company during the financial year were:

Director	Directors' Meetings	
	A	B
Mr Peter King	13	19
Mr Jim Hallam	18	18
Mr Andrew Paice	19	19
Mr Brian Andrews	9	9

A – meetings attended

B – meetings held whilst a director

Remuneration Report (audited)

This report details the nature and amount of remuneration for each director of Sun Biomedical Limited and for the executives receiving the highest remuneration.

The remuneration policy adopted by the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives, such as options, which are exercisable at levels in excess of the Company's share price when granted.

The Directors believe the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, is developed and approved by the Directors after seeking professional advice from independent external consultants where deemed appropriate. The Directors will review executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. The Directors seek ratification of Executive remuneration packages by shareholders at general meeting. In the current year the remuneration is not linked to performance due to the stage in the life cycle of the company.

All remuneration paid to Directors and Executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is

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Report of the Directors (Continued)

subject to approval by shareholders at the Annual General Meeting. The aggregate amount of remuneration has been set at \$100,000.

Fees for non-executive directors are not linked to the performance of the economic entity and currently non executive directors are paid \$20,000 per annum with the non executive Chairman being paid \$35,000 per annum.

Remuneration for Directors and Executives for the period is as follows:

Economic and Parent Entity

Short term employee benefits						Equity Compensation			
Directors		Directors Fees	Consulting Fees	Salary	Super	Value of options	Value of shares	Total	
Specified Directors		\$	\$	\$	\$	\$	\$	\$	
1	Brian Andrews	2008	-	166,667	-	-	6,167	-	172,834
		2007	-	250,000	-	-	6,167	-	256,167
1	Andrew Paice	2008	-	166,667	-	-	6,167	-	172,834
		2007	-	250,000	-	-	6,167	-	256,167
Non-Executive								-	
	Peter King	2008	22,386	-	-	-	3,311	-	25,697
		2007	26,250	-	-	-	12,141	-	38,391
1	Andrew Paice	2008	6,667	-	-	-	-	-	6,667
		2007	-	-	-	-	-	-	-
	Jim Hallam	2008	13,334	-	-	-	-	-	13,334
		2007	-	-	-	-	-	-	-
	Peter Bartleet	2008	-	-	-	-	-	-	-
		2007	16,667	-	-	-	-	-	16,667
2	Peter Boonen	2008	-	-	-	-	-	-	-
		2007	10,000	54,687	-	-	27,062	-	91,749
Total Specified Directors		2008	42,387	333,334	-	-	15,645	-	391,366
		2007	52,917	554,687	-	-	51,537	-	659,141
Key Management Personnel									
5	Jack Kerins	2008	-	-	156,877	-	32,360	-	189,237
		2007	-	-	-	-	-	-	-
3	Marshall Couper	2008	-	-	-	-	-	-	-
		2007	-	-	-	-	90,000	-	90,000
4	Taylor Fogelquist	2008	-	-	-	-	-	-	-
		2007	-	65,283	-	-	18,000	-	83,283
Total Key Management Personnel		2008	-	-	156,877	-	32,360	-	189,237
		2007	-	65,283	-	-	108,000	-	173,283
Total		2008	42,387	333,334	156,877	-	48,005	-	580,603
		2007	52,917	619,970	-	-	51,537	108,000	832,424

Report of the Directors (Continued)

1. Mr Andrews was the Company's Managing Director from 5 June 2006 until his resignation on 22 February 2008. His annual all inclusive consulting remuneration package was \$250,000 per annum was back dated to 15 May 2006. In addition to the annual consultancy fee paid through an associated entity of Mr Andrews, a sign on bonus of 500,000 3 year options exercisable at 10 cents after 30 June 2007 was ratified at the General Meeting of members on 8 September 2006. An option performance package was also negotiated and is tied to EBITDA and/or market capitalisation. This package was subject to ratification of the shareholders at the 8 September 2006 meeting. Mr Andrews resigned as Managing Director and Executive Director on 22 February 2008. Mr Paice was appointed as Chief Financial Officer with effect 5 June 2006 under the same terms and conditions as Mr Andrews. Mr Paice resigned as Chief Financial Officer and Executive Director on 29 February 2008 but continues as a Non Executive Director of the Company.
2. Mr Boonen was appointed as Managing Director effective 30 August 2005 based on an annual consultancy agreement of \$187,500 per annum. Mr Boonen's appointment as Managing Director was changed to that of Executive Director following the appointment of Mr Andrews on June 5, 2006 (refer 1. above). Mr Boonen's executive appointment concluded effective 30 September 2006 and he continued his position with the Company as a non-executive director until his resignation on 20 June 2007. Mr Boonen had received 1,250,000 options in the 2006 financial year which expired 30 days from his resignation date.
3. Mr Couper was the Company's Chief Executive Officer until his resignation on 5 June 2006 and thereafter continued as an executive officer. An associated entity was paid an annual fee of \$180,000 until 31 August 2006 for his services. Mr Couper has elected to accept 50% of the first year consulting fee in ordinary shares issued at 20 cents. The issue of these shares was ratified at the General Meeting of members on 8 September 2006. Mr Couper had received 4,000,000 options in the 2006 financial year which expired following his departure from the Company.
4. Mr Fogelquist was an Executive Director to the date of his resignation on 5 June 2006. He remained an executive of the company responsible for managing the Company's US operations and office and was paid a gross \$180,000 per annum compensation package. He elected to accept 20% of payment in ordinary shares to be issued at 20 cents each, subject to shareholder approval. Mr Fogelquist was issued 90,000 ordinary shares at 20 cents. The issue of these shares was ratified at the General Meeting of members on 8 September 2006. In addition, Mr Fogelquist has received 1,500,000 31 December 2006 \$0.25 Options and 1,500,000 31 December 2008 \$0.35 Options with 50% of these options vesting after 8 February 2006 and the remaining 50% after 8 August 2006. These options expired following his departure from the Company.
5. Mr Kerins was appointed as the Chief Executive Officer of SBL on 22 February 2008. From 27 September 2007, he was the Chief Operating Officer of SBL. He is paid an annual salary of USD 180,000 and is also entitled to receive an incentive bonus. The incentive bonus will be paid at the end of each calendar year in arrears (prorated for any partial year) subject to meeting the performance milestones as determined by the Board. In 2008, Mr Kerins' was paid a bonus of \$21,356 which has been included in the total salary disclosed. These performance milestones include achievement of sales targets, achievement if gross margin targets, maintenance of ISO certification, maintenance of FDA accreditation, retention of key members of staff, introduction and commercialization of new products. The maximum total incentive bonus payout is 150% of annual salary. In addition, Mr Kerins has been issued with an options package which was approved by the Board on 20 June 2008.

Options issued as part of remuneration for the year ended 30 June 2008 (Audited)

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Sun Biomedical Limited to ensure objective alignment between executives, directors and shareholders.

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Report of the Directors (Continued)

	Options Granted in 2008 Financial Year	Options Granted as Part of Remuneration	Total Remuner- ation Represented by Options	Options Exercised	Options Lapsed	Total
		\$	%	\$	\$	\$
Directors						
Peter King	-	3,311	9%	-	-	3,311
Brian Andrews ¹	-	6,167	4%	-	-	6,167
Andrew Paice ¹	-	6,167	4%	-	-	6,167
Peter Boonen ²	-	-	0%	-	(81,185)	(81,185)
	-	15,645	2%	-	(81,185)	(65,540)
Other Key Management Personnel						
Jack Kerins ³	6,000,000	32,360	19%	-	-	32,360
	6,000,000	32,360	9%	-	-	32,360

Note:

1. Sign on options issued and ratified by shareholders at General Meeting 8 September 2006. The deemed fair value as at the date of issue is 3.7 cents per option.

2. Resigned 20 June 2007 and options expired 20 July 2007.

3. Sign on options issued and ratified by the Board on 20 June 2008.

The deemed fair value as at the date of issue is 1.2 cents per option.

	2008	2007
Weighted Average exercise price	\$0.23	\$0.17
Weighted average life of the option	1.3 years	2.1 years
Underlying share price	\$0.013	\$0.155
Expected share price volatility	175.1%	78%
Risk free interest rate	6.64%	5.37%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate

The life of the option is based on the expiry date which may not eventuate in the future.

The number of options over ordinary shares in the Company held during the financial year by each Director and other key management personnel of the group, including their personally related parties, are set out below:

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Report of the Directors (continued)

2008 Directors	Balance at the start of the period	Granted during the year as compensation	Lapsed / Expired during the period	Balance at the end of the period	Vested and exercisable at the end of the period
Options					
Mr Peter King	750,000	-	-	750,000	750,000
Mr Brian Andrews ¹	500,000	-	-	500,000	500,000
Mr Andrew Paice ^{1,4}	500,000	-	-	500,000	500,000
Mr Peter Boonen ²	1,250,000	-	(1,250,000)	-	-
	3,000,000	-	(1,250,000)	1,750,000	1,750,000
Other Key Management Personnel					
Jack Kerins ³	-	6,000,000	-	6,000,000	-
	-	6,000,000	-	6,000,000	-

Note

- Options issued as sign on bonus and ratified by shareholders at General Meeting 8 September 2006.
- Resigned or ceased to be key management personnel.
- Options issued as approved by the Board on 20 June 2008.
- 2,046,500 listed options acquired after balance date with an exercise price of 2 cents, expiry date 30 November 2010
- No options were exercised during the period

This is the end of the Audited Remuneration Report.

Audit Committee

The Directors have taken the view that in light of the Company's size and stage of development, the full board would fulfill the functions of the Audit Committee. This involves maintaining a Code of Corporate Conduct for the economic entity, and to ensure additional assurance with respect to the quality and reliability of the information provided is prepared or approved by third party providers. The board is responsible for the appointment of the external auditor. The Board is responsible for 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.

In fulfilling its responsibilities the Board receives monthly management accounts which are tabled at monthly board meetings.

Shares Issued

The following shares were issued by the company during the year:-

- Issue of 183,965,378 shares at 1.3 cents in August 2007 per the Rights Issue
- Issue of 4,525,457 shares at 1.3 cents via option conversion in August 2007
- Issue of 428,675 to Burke and Grill at 10 cents in August 2007
- Issue of 21,235,000 shares at 4.3 cents in December 2007 in a share placement.
- Issue of 3,022,500 shares at 4.3 cents in January 2008 via a share purchase plan.

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Report of the Directors (continued)

Environmental Issues

The economic entity's operations are not subject to any significant environmental regulations.

Directors' Benefits

Turnberry Funds Management Pty Ltd, a company controlled by Jim Hallam and in which Log Creek Pty Ltd has a 33% shareholding, has entered into an agreement with the Company for the provision of accounting and administration services. The fee is \$85,000 per annum (exclusive of GST).

Since 30 June 2008, no director of the Company has received or become entitled to receive a benefit (other than Directors' Remuneration included above and in Note 25 of the Financial Statements) by reason of a contract made or proposed by the Company or a related corporation with the Directors or with a firm of which he has a substantial financial interest other than as disclosed.

Directors' and Executive Officers' Indemnification

After the balance date, the Company has paid insurance premiums in respect of directors' and officers' liability. A premium of \$16,142 was paid and the policy prevents the company from further disclosure.

There is no indemnification in relation to the auditors.

Non-audit Services

The Directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in APES110 "Code of Ethics for Professional Accountants".

Taxation services performed for the group by the auditor totaled \$34,342 (2007: Nil).

Options

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Grant Date	Expiry Date	Exercise Price	Number of Options
21 January 2005	28 January 2009	35 cents	40,000,000*
8 September 2006	12 September 2009	10 cents	1,000,000
8 September 2006	30 June 2011	10 cents	20,000,000
24 November 2006	31 December 2008	25 cents	500,000
29 November 2005	31 December 2008	24.89 cents	750,000
15 December 2006	15 December 2008	10 cents	500,000
15 December 2006	31 December 2008	12 cents	428,675
25 July 2007	30 June 2009	1.3 cents	986,263
25 July 2007	31 December 2008	8 cents	8,750,000
25 June 2008	31 December 2010	4.5 cents	4,000,000
25 June 2008	15 September 2011	2 cents	2,000,000
			78,914,938

In addition, the Company also has 149,857,963 listed 2 cent options which expire on 30 November 2010. These were issued as part of the recent Rights Issue.

Report of the Directors (continued)

* - the exercise of these options, which were issued as part of the ShockRounds acquisition, are conditional upon the Company achieving an EBITDA of \$5 million in any rolling 12 month period or alternatively achieving a market capitalisation in excess of \$50 million for a period of 60 days. whichever occurs sooner, in a period four years from the date of issue.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 65 of this financial report.

Signing of Annual Report and Directors' Declaration

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Hallam', with a long, sweeping underline.

Jim Hallam
Director

Melbourne
30 September 2008

Corporate governance statement

The Board is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom it is elected and to whom it is accountable.

In accordance with the ASX Corporate Governance Council's best practice recommendations, the Corporate Governance Statement must contain specific information and also report on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company and why. The Company's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:-

- 1: Lay solid foundations for management and oversight.
- 2: Structure the board to add value.
- 3: Promote ethical and responsible decision making.
- 4: Safeguard integrity in financial reporting.
- 5: Make timely and balanced disclosure.
- 6: Respect the rights of shareholders.
- 7: Recognise and manage risk.
- 8: Encourage enhanced performance.
- 9: Remunerate fairly and responsibly.
- 10: Recognise the legitimate interests of stakeholders.

1. Lay Solid Foundations for Management and Oversight

Recommendation 1.1 Formalise and disclose the functions reserved to the Board and those delegated to management

The Board is committed to maximising Company and management performance, thereby generating appropriate levels of shareholder value and financial return.

The Board, therefore, ensures that the Company is properly managed to protect and enhance shareholder interests and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance.

The Board is responsible for, inter alia, development of strategy, oversight of business and Company management, risk management and compliance systems and monitoring performance. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised in this Corporate Governance Statement.

A statement as to the corporate governance policies adopted by the Company is available at the Company's website at www.sunbiomed.com/governance.

Corporate governance statement cont'd

2. Structure the Board to Add Value

Recommendation 2.1: A majority of the Board should be independent directors

Corporate governance statement cont'd

At the date of this statement, the Board comprises of three Directors, two of which are deemed as independent Non-Executive Directors as defined under the Board policy on Director independence:

- Mr Peter King, the Non-Executive Chairman of the Company; and
- Mr Andrew Paice, currently a Non-Executive Director of the Company. Prior to 1 March 2008, Mr Paice was an Executive Director of the Company. However, since Mr Paice's transition to a Non-Executive Director, he has been deemed as an independent Non-Executive Director as defined under the Board policy on Director independence.

Recommendation 2.2: The Chairperson should be an independent Director

The Chairman, Mr Peter King, is an independent Non-Executive Director.

Recommendation 2.3: The roles of Chairperson and Chief Executive Officer should not be exercised by the same person

Mr Brian Andrews resigned as Managing Director of the Company effective 22 February 2008.

At the date of this statement Mr Peter King is the Chairman of the Board, and Mr Jack Kerins is Chief Executive Officer of the Company's United States operating subsidiary, Sun Biomedical Laboratories, Inc. The listed Australian parent company, Sun Biomedical Limited, does not currently engage an Executive Officer.

Recommendation 2.4: The Board should establish a nomination committee

Due to the small size of the Board, the Company does not have a separate nomination committee.

Recommendation 2.5: Provide the information indicated in Guide to Reporting on Principle 2

The Board takes the ultimate responsibility for corporate governance and operates in accordance with the following broad principles:

- the Board shall comprise of between 3 and 10 Directors;
- Directors shall have the power at any time to appoint any other suitably qualified person subject to election at the Company's following annual general meeting;
- in the interest of ensuring a continual supply of new talent to the Board, all Directors with the exception of the Managing Director (where appointed) will serve for a period of three years before they are requested to stand down for re-election; and
- the Board should comprise Directors with a broad range of skills and experience.

Corporate governance statement cont'd

The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available, ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 2', the Company provides the following information:

- The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is detailed in the Director's Report.
- Mr Peter King and Mr Andrew Paice are the Directors considered by the Board to constitute independent directors. In assessing whether a Director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Principles.
- Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company up to \$5,000 per annum in relation to fulfilling their duties as Directors. All Directors are encouraged to actively participate in all decision making processes and are given every opportunity to have their opinion heard and respected on all matters.
- The term of office held by each Director in office at the date of the Annual Report is detailed in the Director's Report.
- Due to the small size of the Board, the Company does not have a separate nomination committee and therefore a charter or an appointment policy has not been created.
- As at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 2, except for Recommendation 2.4. An explanation for the departure from Recommendation 2.4 is set out above.

3. Promote Ethical and Responsible Decision-making

Recommendation 3.1.1: Establish a Code of Conduct to guide the directors, the Chief Executive Officer (or equivalent) and any other executives as to the practices necessary to maintain confidence in the Company's integrity

The Board has adopted a Code of Conduct that provides a framework in which the Company and its representatives conduct their business and activities in a fiscally efficient and socially responsible manner whilst seeking to maximise shareholder returns.

The Code of Conduct also outlines how the Company expects Directors, management and employees to behave and conduct business in a range of circumstances. In particular, the Code of Conduct requires awareness of, and compliance with laws and regulations relevant to the Company's operations.

Corporate governance statement cont'd

The Code of Conduct adopted by the Company is available at the Company's website at www.sunbiomed.com/governance.

Recommendation 3.1.2: Establish a Code of Conduct to guide the directors, the Chief Executive Officer (or equivalent) and any other executives as to the responsibility and accountability of individuals for reporting and investigating reports of unethical practices

Directors, management and staff are expected to act ethically and responsibly. All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as Directors. The Company's Code of Conduct sets out guidelines in relation to the following:

- Protecting the Company's assets and resources.
- Board members for other companies.
- Providing accurate and fair public disclosure.
- Compliance with the law.
- Gifts to and from persons.
- Fair dealing.
- Conflicts of interest.
- Confidential information.
- Accuracy of books and records.
- Reports and complaints.
- Discrimination and harassment free environment.
- Compliance with the Code of Conduct.

Recommendation 3.2: Disclose the policy concerning trading in company securities by Directors, officers and employees

The Company has a policy concerning trading in the Company's securities by Directors, management and staff (*Trading Policy*). The Trading Policy restricts directors and employees from:

- acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the prices of securities; and
 - trading in securities other than in a trading window of four weeks following either: the announcement of results; and
 - a General Meeting of shareholders.

The Trading Policy requires that, in accordance with the ASX Listing Rules, a Director notify the ASX within five (5) business days after any dealing in the Company's securities that results in a change in the relevant interests of the Director in the Company's securities.

Corporate governance statement cont'd

Recommendation 3.3: Provide the information indicated in Guide to Reporting on Principle 3

The 'Guide to Reporting on Principle 3' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website. The Company confirms that it has provided that information as indicated in the 'Guide to Reporting on Principle 3'.

4. Safeguard Integrity in Financial Reporting

Recommendation 4.1: Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards

Mr Brian Andrews resigned as Chief Executive Officer of the Company effective 22 February 2008. Mr Andrew Paice resigned as Chief Financial Officer of the Company effective 29 February 2008. Since these dates, the Company has not had a Chief Executive Officer, Chief Financial Officer or an Executive Officer.

Accordingly, the Board has declared that the financial reports give a true and fair view in all material respects of the Company's financial position and operational results and that they are in accordance with relevant accounting standards. Mr Jack Kerins, the Chief Executive Officer of the Company's United States operating subsidiary, Sun Biomedical Laboratories, Inc, has also declared that the financial reports of Sun Biomedical Laboratories, Inc give a true and fair view in all material respects in accordance with relevant United States accounting standards.

Recommendation 4.2: The Board should establish an Audit Committee

The Company has not established an Audit Committee as recommended under Recommendation 4.2 as the Board is of the view that, having regard to the Company's current level of operations and the number of current Directors of the Company, the implementation of an Audit Committee is currently cost prohibitive. As the Company's level of operations increases, the Company will consider establishing an Audit Committee

Accordingly, it is the Board's responsibility to establish and maintain an effective internal control framework to examine the effectiveness and efficiency of the management of the Company and significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with environmental regulations.

Recommendation 4.3, 4.4 and 4.5 Structure of the Audit Committee, Audit Committee charter and information indicated in the Guide to Reporting on Principle 4

As recommendations 4.3, 4.4 and 4.5 relate to the composition and charter of the Audit Committee, they have not been implemented by the Company.

Corporate governance statement cont'd

5. Make Timely and Balanced Disclosure

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance

The Board and senior management are aware of the Continuous Disclosure requirements of the ASX and have written policies and procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. Furthermore, the Directors and senior management of the Company acknowledge that they each have an obligation to immediately identify and immediately disclose information that may be regarded as material to the price or value of the Company securities.

The Directors are authorised to make statements and representations on the Company's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public.

The Directors and senior management personnel of the Company ensure that the Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, shareholders, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market is the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received may the information be presented.

If information that would otherwise be disclosed comprises of matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of the Company's securities is unknown, the Company may request that the ASX grant a trading halt or suspend the Company's securities from quotation. Management of the Company may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

Recommendation 5.2: Provide the information indicated in Guide to Reporting on Principle 5

The 'Guide to Reporting on Principle 5' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website. The Company confirms that it has provided that information as indicated in the Guide to Reporting on Principle 5.

6. Respect the Rights of Shareholders

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings

The Board aims to ensure in accordance with Recommendation 6.1 that all shareholders are informed of relevant major developments affecting the affairs of the Company. Information is communicated to

Corporate governance statement cont'd

the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

A description of the arrangements the Company has to promote communications with shareholders is available at the Company's website at www.sunbiomed.com/governance.

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report

The Company has requested that the external auditor attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7. Recognise and Manage Risk

Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1. Since the resignations of Mr Brian Andrews and Mr Andrew Paice on 29 and 22 February 2008 respectively, the Company has engaged Turnberry Funds Management Pty Ltd, a company associated with Mr Jim Hallam, a Non-Executive Director of the Company, to implement and manage appropriate risk oversight and management systems within the Company. The risk oversight and management system covers:

- operations risk;
- financial reporting; and
- compliance

The Company is committed to the proper identification and management of risk. The Company regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure not only that the Company complies with its legal obligations, but that the Board and ultimately shareholders can take comfort that an appropriate system of checks and balances in place regarding those areas of the business which present financial or operating risks.

The Company has also adopted a Code of Conduct which sets out the Company's commitment to maintaining a high level of integrity and ethical standards in all business practices.

A statement as to the Company's risk management strategy policy and internal compliance and control system adopted by the Company is available at the Company's website at www.sunbiomed.com/governance.

Recommendation 7.2: The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that:

Corporate governance statement cont'd

7.2.1) the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

7.2.2) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material effects

As Mr Brian Andrews and Mr Andrew Paice resigned as Chief Executive Officer and Chief Financial Officer on 29 and 29 February 2008 respectively, Mr Jack Kerins, the Chief Executive Officer of the Company's United States operating subsidiary, Sun Biomedical Laboratories, Inc. has declared to the Board that the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.

Recommendation 7.3: Provide the information indicated in Guide to Reporting on Principle 7

The 'Guide to Reporting on Principle 7' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website. The Company confirms that it has provided that information as indicated in the 'Guide to Reporting on Principle 7'.

8. Encourage Enhanced Performance

Recommendation 8.1: Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives:

The performance of the Board, individual Directors and key executives is reviewed annually, and has taken place during this reporting period. In particular, Mr Brian Andrews and Mr Andrew Paice resigned on 22 February 2008 and 29 February 2008 respectively in response to recommendation to the Board that the Company reduce its administrative overheads in Australia and focus a greater portion of its assets in the operation of its United States subsidiary, Sun Biomedical Laboratories, Inc.

The Company has not established an Audit, Remuneration or Nomination Committee as subcommittees of the Board. Section 4 of this Statement sets out why the Company does not have an Audit Committee and discusses the processes the Company has in place as a result. Remuneration and Nomination issues are discussed and resolved at Board meetings and accordingly, the Board is responsible for determining and reviewing the remuneration of the Directors. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executive with the skills to manage the Company's operations. In making decisions regarding the appointment of Directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board. The Board may also obtain information from, and consult with management and external advisers, as it considers appropriate.

The Remuneration policy for the Directors is disclosed in the Directors' Report.

Corporate governance statement cont'd

9. Remunerate Fairly and Responsibly

Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand:

- the costs and benefits of those policies; and
- the link between remuneration paid to Directors and key-executives and corporate performance

Jack Kerins, Chief Executive Officer of the Company's United States operating subsidiary, Sun Biomedical Laboratories, Inc, is the Company's only executive.

Mr Jack Kerins' annual remuneration is a set amount for three years with options to be issued should certain performance hurdles be achieved.

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members having regard to the Company's level of operations and financial resources. Directors are remunerated with reference to market rates for comparable positions. Remuneration policies for each Non-Executive Director are disclosed in the Directors' Report.

The Board has developed processes and policies for determining and reviewing the remuneration of the Directors of the Company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. In making decisions regarding the appointment of Directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board.

The Board may obtain information from, and consult with management and external advisers, as it considers appropriate.

Recommendation 9.2: The Board should establish a Remuneration Committee

The Company has not established a Remuneration Committee as a subcommittee of the Board. Remuneration issues are discussed and resolved at Board meetings.

Recommendation 9.3: Clearly distinguish the structure of Non-Executive Director's remuneration from that of executives

Non-Executive Directors are paid a set fee as disclosed in the Director's Report in this Annual Report. The remuneration of executives is dependent on the terms of the employment agreement with those executives. The remuneration structure of Non-Executive Directors and executives is clearly distinguishable.

There are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors.

Corporate governance statement cont'd

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

The Company has only offered payment of equity based remuneration to Mr Jack Kerins in this reporting period. It is proposed that the issue of options to Mr Jack Kerins under this equity based remuneration be proposed as a resolution at the Company's next general meeting.

Recommendation 9.5: Provide the information indicated in the Guide to Reporting on Principle 9

The 'Guide to Reporting on Principle 9' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website. The Company confirms that it has provided that information as indicated in the 'Guide to Reporting on Principle 9'.

10. Recognise the Legitimate Interests of Stakeholders

Recommendation 10.1: Establish and disclose a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders

The Board recognises the legitimate interests of shareholders, employees and other stakeholders. The Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company.

The Code of Conduct adopted by the Company setting out these corporate governance policies and practices is available at the Company's website at www.sunbiomed.com/governance.

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. the financial statements and notes for the financial year ended 30 June 2008 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and economic entity;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the audited remuneration disclosures on pages 6 to 10 of the directors' report (the audited Remuneration Report) for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001. .

The Directors have been given the declaration by the Chief Executive Officer of Sun Biomedical Laboratories Inc. required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors, and is signed for and on behalf of the Directors by:



Jim Hallam
Director

Melbourne
30 September 2008

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue from continuing operations	2(a)	798,440	679,831	160,598	23,838
Other income	2(b)	147,176	115,051	(31,754)	115,051
Total Revenue		945,616	794,882	128,844	138,889
Raw materials and consumables used		(314,815)	(109,773)	-	-
Employee benefits expense		(1,001,838)	(1,202,834)	(398,579)	(700,934)
Finance costs	3	-	(56,054)	-	(51,628)
Development expense - Shockrounds		-	(115,287)	-	-
Development expense - Sun Biomedical		-	(17,471)	-	-
Consulting fees		(189,360)	(65,283)	(56,177)	-
Travel and accommodation expense		(121,881)	(98,313)	(62,383)	(75,932)
Insurance		(44,771)	(19,342)	(21,903)	-
Advertising and marketing expense		(60,229)	(334,117)	(15,550)	(61,648)
Equity based payments	25	(96,721)	(248,926)	(96,721)	(248,926)
Administration expense		(413,987)	(93,228)	(83,750)	(10,218)
Regulatory compliance expenses		(271,936)	(101,547)	(224,343)	(101,547)
Legal expenses		(237,182)	(127,330)	(153,336)	(87,330)
Rent		(197,800)	(138,765)	(66,300)	(39,162)
Write off Intercompany Loan	3	-	-	-	(427,813)
Impairment of intangible assets	3	(1,000,000)	-	(1,000,000)	(65,789)
Impairment of investment	3	-	-	-	(137,791)
Impairment of loans	3	-	-	(1,182,400)	(312,209)
Loss on disposal of non-current assets	3	(5,896)	(3,765)	(5,896)	(3,765)
Depreciation and amortisation expense	3	(546,590)	(481,452)	(546,590)	(479,186)
Share of net profits (losses) of associate accounted for using the equity method	12	-	(3,056)	-	-
Loss before income tax	3	(3,557,390)	(2,421,661)	(3,785,084)	(2,664,990)
Income tax expense	4	-	-	-	-
Loss attributable to members of the parent entity		(3,557,390)	(2,421,661)	(3,785,084)	(2,664,990)
Overall operations		Cents per Share	Cents per Share		
Basic and diluted earnings (loss) per share	7	(1.0)	(1.4)		
Continuing operations					
Basic and diluted earnings (loss) per share	7	(1.0)	(1.4)		

The above Income Statement should be read in conjunction with the accompanying notes.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

BALANCE SHEETS
AS AT 30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	8	118,223	446,334	112,375	330,376
Receivables	9	270,890	200,959	177,243	116,835
Inventories	10	210,096	83,110	-	-
Total Current Assets		599,209	730,403	289,618	447,211
Non-Current Assets					
Receivables	9	-	-	62,721	116,343
Other financial assets	11	-	-	-	-
Property, plant and equipment	13	16,988	17,010	4,605	12,619
Intangible assets	14	1,832,410	3,324,116	1,781,824	3,324,116
Total Non-Current Assets		1,849,398	3,341,126	1,849,150	3,453,078
Total Assets		2,448,607	4,071,529	2,138,768	3,900,289
Current Liabilities					
Trade and other payables	15	422,372	546,663	250,832	372,048
Borrowings	16	-	478,310	-	478,310
Promissory Note	19	1,018,076	472,981	1,018,076	472,981
Total Current Liabilities		1,440,448	1,497,954	1,268,908	1,323,339
Non-Current Liabilities					
Promissory Note	19	-	1,158,803	-	1,158,803
Total Non-Current Liabilities		-	1,158,803	-	1,158,803
Total Liabilities		1,440,448	2,656,757	1,268,908	2,482,142
Net Assets		1,008,159	1,414,772	869,860	1,418,147
Equity					
Contributed equity	17	24,483,424	21,300,481	24,483,424	21,300,481
Reserves	18	28,397	240,238	118,391	244,212
Accumulated losses		(23,503,662)	(20,125,947)	(23,731,955)	(20,126,546)
Total Equity		1,008,159	1,414,772	869,860	1,418,147

*The above Balance Sheet should be read in conjunction
with the accompanying notes.*

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

ECONOMIC ENTITY	Share Capital Ordinary	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2006	20,243,702	(18,316,123)	765,123	1,779	2,694,481
<i>Transactions with equity holders in their capacity as equity holders</i>					
Shares issued during the year	1,103,500	-	-	-	1,103,500
Transaction costs	(46,721)	-	-	-	(46,721)
Cost of share based payments	-	-	90,927	-	90,927
Transfer to (from) reserves	-	611,837	(611,837)	-	-
Subtotal	1,056,779	611,837	(520,911)	-	1,147,706
<i>Total recognised gains and losses for the year</i>					
Currency translation differences	-	-	-	(5,753)	(5,753)
Loss attributable to members of parent entity	-	(2,421,661)	-	-	(2,421,661)
Subtotal	-	(2,421,661)	-	(5,753)	(2,427,414)
Balance at 30 June 2007	21,300,481	(20,125,947)	244,212	(3,974)	1,414,772
Balance at 1 July 2007	21,300,481	(20,125,947)	244,212	(3,974)	1,414,772
<i>Transactions with equity holders in their capacity as equity holders</i>					
Shares issued during the year	3,539,285	-	-	-	3,539,285
Transaction costs	(356,342)	-	-	-	(356,342)
Cost of share based payments	-	-	53,854	-	53,854
Transfer to (from) reserves	-	179,675	(179,675)	-	-
Subtotal	3,182,943	179,675	(125,821)	-	3,236,797
<i>Total recognised gains and losses for the year</i>					
Currency translation differences	-	-	-	(86,020)	(86,020)
Loss attributable to members of parent entity	-	(3,557,390)	-	-	(3,557,390)
Subtotal	-	(3,557,390)	-	(86,020)	(3,643,410)
Balance at 30 June 2008	24,483,424	(23,503,662)	118,391	(89,994)	1,008,159

*The above Statements of Changes in Equity should be read in conjunction
with the accompanying notes.*

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

Continued

PARENT ENTITY	Share Capital Ordinary	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2006	20,243,702	(18,073,393)	765,123	-	2,935,432
<i>Transactions with equity holders in their capacity as equity holders</i>					
Shares issued during the year	1,103,500	-	-	-	1,103,500
Transaction costs	(46,721)	-	-	-	(46,721)
Cost of share based payments	-	-	90,926	-	90,926
Transfer to (from) reserves	-	611,837	(611,837)	-	-
Subtotal	1,056,779	611,837	(520,911)	-	1,147,705
<i>Total recognised gains and losses for the year</i>					
Currency translation differences	-	-	-	-	-
Loss attributable to members of parent entity	-	(2,664,990)	-	-	(2,664,990)
Subtotal	-	(2,664,990)	-	-	(2,664,990)
Balance at 30 June 2007	21,300,481	(20,126,546)	244,212	-	1,418,147
Balance at 1 July 2007	21,300,481	(20,126,546)	244,212	-	1,418,147
<i>Transactions with equity holders in their capacity as equity holders</i>					
Shares issued during the year	3,539,285	-	-	-	3,539,285
Transaction costs	(356,343)	-	-	-	(356,343)
Cost of share based payments	-	-	53,854	-	53,854
Transfer to (from) reserves	-	179,675	(179,675)	-	-
Subtotal	3,182,942	179,675	(125,821)	-	3,236,797
<i>Total recognised gains and losses for the year</i>					
Currency translation differences	-	-	-	-	-
Loss attributable to members of parent entity	-	(3,785,084)	-	-	(3,785,084)
Subtotal	-	(3,785,084)	-	-	(3,785,084)
Balance at 30 June 2008	24,483,423	(23,731,955)	118,391	-	869,860

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

		Economic Entity		Parent Entity	
		2008	2007	2008	2007
	Note	\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		822,882	620,341	68,792	-
Payments to suppliers and employees		(3,267,321)	(2,244,868)	(1,241,710)	(961,218)
Interest received		41,483	23,838	129,203	23,838
Interest paid		-	(56,054)	-	(51,628)
Other income		1,395	1	1,395	-
Net cash outflow from operating activities	23	(2,401,561)	(1,656,742)	(1,042,320)	(989,009)
Cash flows from investing activities					
Proceeds from sale of investments		-	41,897	-	41,897
Loan / Repayment of loan to other entity		-	-	-	-
Loan to controlled entity		-	-	(1,307,707)	(818,351)
Payment for property, plant and equipment		(60,756)	-	(2,180)	-
Payment for Sun Biomedical Laboratories Inc. acquisition		-	(390,853)	-	(390,853)
Payment for equity investments		-	(48,155)	-	-
Net cash (outflow)/inflow from investing activities		(60,756)	(397,111)	(1,309,887)	(1,167,307)
Cash flows from financing activities					
Issue of shares	17	3,496,418	945,500	3,496,418	945,500
(Repayments)/Proceeds from borrowings		(1,005,869)	478,310	(1,005,869)	478,310
Share issue costs	17	(356,343)	(46,721)	(356,343)	(46,721)
Net cash inflow from financing activities		2,134,206	1,377,089	2,134,206	1,377,089
Net decrease in cash held		(328,111)	(676,764)	(218,001)	(779,227)
Cash at the beginning of the financial year		446,334	1,124,217	330,376	1,110,722
Effect of exchange rates on cash holdings in foreign currencies		-	(1,119)	-	(1,119)
Cash at the end of the financial year	23	118,223	446,334	112,375	330,376

*The above Cash Flow Statements should be read in conjunction
with the accompanying notes.*

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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 1: Summary of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements were authorised for issue by the Board on 25 September 2008.

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

The financial report of Sun Biomedical Limited and controlled entities, and Sun Biomedical Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures that the financial report of Sun Biomedical Limited and controlled entities, and Sun Biomedical Limited as an individual parent entity complies with International Financial Reporting Standards (IFRS)..

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs.

Significant Estimates and Critical Judgements

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

The following significant judgments and critical estimates have been made in preparation of this financial report. If these judgments or estimates were to significantly change this could have a material effect on the financial statements.

1. *Parent Entity – impairment of intercompany receivable*
During the year the recoverability from Sun Biomedical Laboratories Inc was considered to be impaired based on the recoverable amount assessed. Further information on the impairment can be found in Note 14.
2. *Impairment of intangible assets*
During the year intangible assets were tested for impairment. The recoverable amount of the intellectual property was estimated (further information on these significant estimates can be found in Note 14(a)) and was found to be less than the carrying value. An impairment loss of \$1,000,000 has been recognized.
3. *Non-recognition of deferred tax assets*
A deferred tax asset has not been recognised due to the uncertainty of the recoverability of tax losses.

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Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity controlled by Sun Biomedical Limited. Control exists where Sun Biomedical Limited has the capacity to dominate the decision-making in relation to the financial and operating activities of another entity so that the other entity operates with Sun Biomedical Limited to achieve the objectives of Sun Biomedical Limited.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Investments in subsidiaries are accounted for at cost less any impairment losses in the individual financial statements of Sun Biomedical Limited.

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads where applicable. Overheads are applied on the basis of normal operating capacity.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment loss, where applicable.

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability. Lease payments received reduce the liability.

(ii) Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

(iii) The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	5 - 22.5%
Leased plant and equipment	25 - 33 %

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(d) Financial Instruments

Recognition

Financial instruments are initially measured at fair value (which represents cost) on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognized initially at fair value and subsequently at amortised cost using the effective interest rate method.

Other Financial Assets

Other financial assets, including investments in controlled entities, are recognised at cost, less where applicable any impairment losses.

Financial liabilities

Non-derivative financial liabilities are recognised initially at fair value and subsequently at amortised cost, comprising original debt less principal payments and amortisation.

Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Fair value estimations

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

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. If recoverable amounts is assessed as lower than carrying amount, impairment losses are recognised in the income statement.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for doubtful 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 reorganisation, and defaults or delinquent payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment losses is recognized in the income statement.

(e) Intangibles

Intellectual Property

Intellectual property is recognised at cost of acquisition and is amortised over the period in which its benefits are expected to be realised. The intellectual property is amortised over seven years. The balances are reviewed annually for impairment and any balance representing future benefits for which the realisation is considered to be no longer probable are recognized in the income statement as impairment losses.

NOTES TO AND FORMING PART OF THE
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(f) Research and Development

Under AASB 138: Intangible Assets, costs associated with the research phase of the development of an asset must be expensed. Where no intangible asset can be recognised, research and development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(g) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items that may be recognized directly in equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and the economic entity will continue to comply with the conditions of deductibility imposed by the law.

(h) Cash & Cash Equivalents

For the purpose of the statements of cash flows, cash includes:

- cash on hand and on call deposits with banks or financial institutions, net of overdrafts; and
- investments in money market instruments with less than 3 months to maturity.

(i) Comparative Figures

Where necessary comparative figures are adjusted to conform with the changes in presentation of the current period.

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(j) Employee Entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave, which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have not been measured at the present value of the estimated future cash outflows as the amounts involved are not material. Contributions are made by the company to an employee superannuation fund and are charged as expenses when incurred.

(k) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to the customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

(m) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The functional currency of the foreign operation, Sun Biomedical Laboratories Inc is United States dollars (US\$).

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed of.

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(n) Investments in Associates

Investments in associated companies are recognised in the parent financial statements at cost and in the consolidated financial statements by applying the equity method of accounting. Associates are all entities over which significant influence is exercised over an investee. Significant influence exists where the investor has the power to participate in the financial and operating policy decisions of the investees but does not have control or joint control over those policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. The group's investment in associates includes goodwill (net of any impairment) identified on acquisition. The group's share of its associate's post acquisition profits or losses is recognized in the income statement and adjusted to the carrying amount of the investment. Unrealised gains or losses between the group and its associates are eliminated to the extent of the group's interest in the associate.

(o) Share-based payment transactions

The Group provides benefits to officers (including directors) and some payments to consultants of the Group in the form of share-based payment transactions, whereby officers and consultants render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with officers and consultants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying a Black Scholes pricing model.

In valuing equity-settled transactions, no account is taken of any performance conditions, but is linked to the price of the shares of Sun Biomedical Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant officers and consultants become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(p) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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(q) 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.

(r) Loss per share

Basic loss per share is calculated as net loss attributable to members of the parent entity, adjusted to exclude any costs of servicing equity (other than dividends) , divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted loss per share is calculated as net loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) New accounting standards and interpretations

The following accounting standards, amendments and interpretations have been issued by the Accounting Standards Board but are not yet effective, are expected to effect the group in the initial period of adoption and have not been applied in preparation of this financial report:

AASB 8 Operating Segments (Issued February 2008) 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 financial performance for segments. This information will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to segments. The adoption of AASB 8 when it becomes mandatory is expected to significantly change the way the segment information is presented, but is not expected to have an impact on any reported amounts.

Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for reporting periods commencing on or after 1 January 2009. It requires changes to the way that the primary statements are presented but will not have any effect on reported amounts.

None of the other standards, amendments or interpretations issued which are not yet effective are expected to change any of the reported amounts of the Group.

(t) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the year, the consolidated entity incurred an operating loss after tax of \$3,557,390 (2007: \$2,421,661) and negative cash flows from operations of \$2,401,561 (2007: 1,656,742). As at the reporting date, the current

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(t) Going Concern (continued)

liabilities of the consolidated entity of \$1,314,240 (2007: \$1,497,954) exceed current assets of \$473,001 (2007: \$730,403) by \$841,239 (2007: \$767,551).

Notwithstanding the financial results outlined above, the directors believe the going concern basis of preparation to be appropriate given the following reasons:

- The Board remains committed to a business plan that should result in the Company becoming profitable and cash flow positive.
- The company has successfully undertaken a capital raising resulting in an increase of cash reserves of \$2,998,963 (before issue costs). A portion of these funds were used to repay the Promissory Note that was disclosed as a current liability as at 30 June 2008. (refer note 19). The company is now interest bearing debt free.
- Ongoing sales and marketing initiatives are being undertaken in a number of countries including Mexico, China and Russia, the results of which should have a positive impact on the company.

(u) 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, equity instruments 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. If the cost of acquisition is less than the Group's share of the fair value of the identifiable 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.

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NOTES TO AND FORMING PART OF THE
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Note 2: Revenue and Other Income

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Revenue				
- sales	755,562	655,992	30,000	-
- interest received	41,483	23,838	129,203	23,838
- other revenue	1,395	1	1,395	-
	<u>798,440</u>	<u>679,831</u>	<u>160,598</u>	<u>23,838</u>
(b) Other income				
- unrealised foreign exchange gain/loss	147,176	115,051	(31,754)	115,051
	<u>147,176</u>	<u>115,051</u>	<u>(31,754)</u>	<u>115,051</u>

Note 3: Loss before income tax

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss before income tax has been determined after:				
Expenses				
Share based payments	42,867	158,000	42,867	158,000
Finance costs:				
- interest paid to other persons	-	(56,054)	-	(51,628)
Total finance costs	<u>42,867</u>	<u>101,946</u>	<u>42,867</u>	<u>106,372</u>
Depreciation and amortisation of non-current assets:				
- plant and equipment	(4,298)	(6,365)	(4,298)	(4,100)
- amortisation of Intellectual Property	(542,292)	(475,086)	(542,292)	(475,086)
Total depreciation and amortisation	<u>(546,590)</u>	<u>(481,452)</u>	<u>(546,590)</u>	<u>(479,186)</u>
Loss on disposal of non-current assets	(5,896)	(3,765)	(5,896)	(3,765)
Impairment of investment	-	-	-	(137,791)
Impairment of loans	-	-	(1,182,400)	(312,209)
Impairment of intangible assets	(1,000,000)	-	(1,000,000)	(65,789)
Write off Intercompany Loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>(427,813)</u>

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Note 4: Income tax

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Numerical reconciliation of income tax expense (benefit) to prima facie tax payable (benefit):				
Prima facie tax benefit on loss before income tax at 30% (2006: 30%)	(1,067,217)	(726,498)	(1,135,525)	(799,497)
Add:				
Tax effect of amounts which are not deductible in calculating taxable income:				
- impairment write down (confirm as timing difference)	-	-	-	19,737
- amortisation of Intellectual Property	162,688	142,526	162,688	142,526
- other non deductibles	-	1,112	-	1,112
- equity based payments	29,016	74,678	29,016	74,678
- amortisation of share issue costs	-	(24,080)	-	(24,080)
- share of associates profits (losses)	-	917	-	-
- unrealised foreign exchange gain	(44,153)	(34,515)	9,526	(34,515)
- other items - debt forgiveness	-	-	-	128,344
- provision for diminution in value of investment	-	-	-	41,337
- provision for non collectible loans	-	-	354,720	93,663
- other temporary differences not recognised	-	8,677	-	8,677
- tax losses for the year not recognised	579,575	371,944	579,575	348,018
- tax losses of overseas controlled entities not recognised and differences in tax rate	340,091	185,239	-	-
Income tax expense (benefit)	-	-	-	-
Unrecognised deferred tax assets(Australian Entities):				
Deferred tax assets and liabilities not recognised relate to the following:				
Tax effect at 30%				
Deferred tax assets - temporary differences	-	8,161	-	8,161
Tax losses	997,607	742,604	997,607	718,680
	997,607	750,765	997,607	726,841
Gross:				
Deferred tax assets - temporary differences	-	27,203	-	27,203
Tax losses	3,325,356	2,475,347	3,325,356	2,395,600
	3,325,356	2,502,550	3,325,356	2,422,803

Deferred tax assets of Australian Entities have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilized. These amounts exclude the losses of overseas controlled entities of approximately \$1,088,000 (2007:\$617,000).

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Note 5: Auditor's remuneration

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:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Audit Services				
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial reports	83,210	41,025	83,210	41,025
(b) Non-Audit Services				
- taxation services - paid to a related practice of the auditor.	34,342	-	34,342	-
Remuneration of an affiliate of the auditor of the parent entity for:				
- auditing or reviewing of the financial report of Sun Biomedical Laboratories Inc.	18,348	-	-	-

Note 6: Dividends

No dividends were paid or proposed during the financial year.

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years:

2,796,066	2,796,066	2,739,521	2,739,521
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Note 7: Loss per share

	Economic Entity	
	2008	2007
Overall Operations		
Basic and diluted loss per share (cents per share)	(1.0)	(1.4)
Loss used in the calculation of basic EPS (\$)	(3,557,390)	(2,421,661)
Continuing Operations		
Basic and diluted loss per share (cents per share)	(1.0)	(1.4)
Loss used in the calculation of basic EPS (\$)	(3,557,390)	(2,421,661)
Weighted average number of shares outstanding during the year used in calculations of basic earnings per share:	365,272,840	171,062,817

There was no dilutive effect of options outstanding at balance sheet date. Information on options outstanding at the balance sheet date can be found in Note 25. Additional shares have been issued after the year end (see Note 28) which would have affected loss per share had they been issued before 30 June 2008.

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Note 8: Cash and cash equivalents

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at Bank	118,223	446,334	112,375	330,376
Reconciliation to cash at year end				
Cash at Bank	118,223	446,334	112,375	330,376
Bank Overdraft (note 16)	-	-	-	-
Cash and cash equivalents as per Statement of Cash Flows	118,223	446,334	112,375	330,376

Note 9: Trade and Other Receivables

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Trade Receivables	59,865	63,440	6,153	-
Other Receivables	19,681	83,426	19,334	64,279
Prepayments	191,344	54,093	151,756	52,556
	270,890	200,959	177,243	116,835
Non-Current				
Amounts receivable from:				
- controlled entity (MDM Technologies Pty Ltd)	-	-	13,512	13,512
- controlled entity (Sun Biomedical Australia Pty Ltd)	-	-	49,209	47,706
- controlled entity (Sun Biomedical Laboratories Inc)	-	-	1,494,609	367,334
Less Impairment	-	-	(1,494,609)	(312,209)
	-	-	62,721	116,343

Note 10: Inventories

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Work in progress				
-at net realisable value	33,175	58,520	-	-
Finished Goods				
-at net realisable value	176,921	24,590	-	-
	210,096	83,110	-	-

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2008 amounted to \$8,754 (2007: \$19,440). The expense has been recognised in 'raw materials and consumables used' in the income statement.

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Note 11: Other Financial assets

(a) Controlled entities and their contribution to consolidated loss

	Country of Incorporation	Percentage Owned		Contribution to Consolidated Loss	
		2008 %	2007 %	2008 \$	2007 \$
Parent Entity					
Sun Biomedical Limited	Australia	-	-	(3,785,084)	(2,664,990)
Controlled Entities					
MDM Technologies Pty Ltd	Australia	100	100	-	(72,709)
Harrington Group USA Inc	USA	100	100	-	(161,836)
Sun Biomedical Australia Pty Ltd	Australia	100	100	(42,546)	(7,037)
Sun Biomedical Laboratories Inc.	USA	100	100	(1,088,131)	(455,634)
				(4,915,761)	(3,362,207)
	Eliminations			1,358,371	940,546
				(3,557,390)	(2,421,661)

(b) Investment in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	Equity holding		Cost of Parent Entity's Investment	
			2008 %	2007 %	2008 \$	2007 \$
MDM Technologies Pty Ltd	Australia	Ordinary	100	100	2	2
Harrington Group USA Inc	USA	Ordinary	100	100	-	-
Sun Biomedical Australia Pty Ltd	Australia	Ordinary	100	100	1,000	1,000
Sun Biomedical Laboratories Inc.	USA	Ordinary	100	100	136,789	136,789
					137,791	137,791
Less Impairment					(137,791)	(137,791)

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Note 12: Investments accounted for using the equity method

(a) Name of Entity	Principal Activities	Country of Incorporation	Class of Shares	Economic Entity			
				Equity holding		Carrying amount of Investment	
				2008	2007	2008	2007
Unlisted:				%	%	\$	\$
Sun Biomedical Laboratories Inc.	Drug screening product manufacturer	USA	Ordinary	100%	100%	-	-

(b) Movements during the year in equity accounted investment in associated company

Balance at beginning of the financial year	-	1,802,964
Investments during the year	-	(1,799,908)
Share of associated company's loss from ordinary activities and extraordinary items after income tax	-	(3,056)
Balance at end of the financial year	-	-

(c) Summarised presentation of aggregate assets, liabilities and performance of associate

	2008	2007
	\$	\$
Revenues	-	94,053
Profit (loss) before and after income tax of associate	-	(7,640)
Share of associates' profit (loss)	-	(3,056)

Ownership interest in Sun Biomedical Laboratories Inc. at that company's balance date in 2006 was 40% of ordinary shares. The acquisition of the remaining 60% was completed on 16th August 2006. From that date Sun Biomedical Laboratories Inc. was a controlled entity and was consolidated. The reporting date of Sun Biomedical Laboratories Inc. is 31 December. There are no capital expenditure or lease commitments nor any contingent liabilities of Sun Biomedical Laboratories Inc..

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Note 13: Property, plant and equipment

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Plant and equipment				
Cost	148,824	183,928	8,050	27,224
Accumulated depreciation	(131,836)	(166,918)	(3,445)	(14,605)
Total property, plant and equipment	16,988	17,010	4,605	12,619

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Reconciliation of Plant and equipment				
Carrying amount at the beginning of the year	17,010	23,375	12,619	16,719
Additions in business combination	-	147,340	-	-
Accumulated depreciation in business combination	-	(147,340)	-	-
Additions	14,563	-	2,180	-
Disposals	(10,287)	-	(5,896)	-
Depreciation	(4,298)	(6,365)	(4,298)	(4,100)
Carrying amount at the end of the year	16,988	17,010	4,605	12,619

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NOTES TO AND FORMING PART OF THE
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Note 14: Intangible assets

Economic Entity	Shockrounds	Sun Biomedical Laboratories Inc. Intellectual Property	Total
	\$	\$	\$
At 30 June 2007			
Cost	8,110,484	3,799,202	11,909,686
Accumulated amortisation and impairment	(8,110,484)	(475,086)	(8,585,570)
Net book amount	-	3,324,116	3,324,116
Movement			
Opening balance 1 July 2006	-	-	-
Additions - through business combination	-	3,799,202	3,799,202
Amortisation charge	-	(475,086)	(475,086)
Closing balance 30 June 2007	-	3,324,116	3,324,116
At 30 June 2008			
Cost	8,110,484	3,851,323	11,961,807
Accumulated amortisation	(8,110,484)	(1,018,914)	(9,129,398)
Impairment	-	(1,000,000)	(1,000,000)
Net book amount	-	1,832,409	1,832,409
Movement			
Opening balance 1 July 2007	-	3,324,116	3,324,116
Additions	-	50,586	50,586
Amortisation charge	-	(542,292)	(542,292)
Impairment	-	(1,000,000)	(1,000,000)
Closing balance 30 June 2008	-	1,832,410	1,832,410

The intellectual property relates to patents for the design of drug testing products. There is 6 (2007:7) years remaining of the useful life of the intellectual property.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 14: Intangible assets (continued)

Parent Entity	Sun Biomedical Laboratories Inc. Intellectual Property	Total
	\$	\$
At 30 June 2007		
Cost	3,799,202	3,799,202
Accumulated amortisation and impairment	(475,086)	(475,086)
Net book amount	<u>3,324,116</u>	<u>3,324,116</u>
Movement		
Opening balance 01 July 2006	-	-
Additions - through business combination	3,799,202	3,799,202
Amortisation charge	(475,086)	(475,086)
Closing balance 30 June 2007	<u>3,324,116</u>	<u>3,324,116</u>
At 30 June 2008		
Cost	3,799,202	3,799,202
Accumulated amortisation	(1,017,378)	(1,017,378)
Impairment	(1,000,000)	(1,000,000)
Net book amount	<u>1,781,824</u>	<u>1,781,824</u>
Movement		
Opening balance 1 July 2007	3,324,116	3,324,116
Amortisation charge	(542,292)	(542,292)
Impairment	(1,000,000)	(1,000,000)
Closing net book amount	<u>1,781,824</u>	<u>1,781,824</u>

(a) Impairment tests for intangible assets – Sun Biomedical Laboratories Inc. Intellectual Property

The intellectual property capitalized through the acquisition of Sun Biomedical Laboratories Inc. relates to five patents for device and proprietary technology. The estimated serviceable life of the patents is seven years.

During the year there have been indicators of impairment which have required an impairment test to be carried out in relation to the recoverable amount of the patents.

Based on estimated future cashflows to be generated from the use of the patents, the recoverable amount was estimated at \$1,781,824 and an impairment loss of \$1,000,000 (2007: NIL) recognized. The estimated future cash inflows are based on signed distributor agreements in the US, Australia and Russia. The agreements specify minimum quantities and selling price. Cash inflows also include estimated future sales from China, Mexico and Europe. For some of these countries there are not signed distributor agreements but management believe the estimated sales will be obtained.

Estimated related costs for generating these cash inflows have been deducted, and the net cash flows have been discounted at 20% to estimate the recoverable amount of \$1,781,824.

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Sun Biomedical Laboratories	Estimated Patent Life		Discount Rate	
	2008	2007	2008	2007
Key assumptions: Intellectual Property	6	7	20%	20%

(b) Impairment tests for intangible assets - Shockrounds

Shockrounds, being an intangible asset with an indefinite life has been tested for impairment annually by comparing its carrying amount with its recoverable amount. The fully impaired amount was recognised in the financial year ended 30 June 2007. There are no indications that impairment losses previously recognized should be reversed.

Recoverable amount is the higher of the intangible asset's 'fair value less costs to sell' and its 'value in use' (being the present value of discounted cash flows).

The Directors have considered the following factors and concluded the Shockrounds Intangible Asset has been impaired.

- There has been a decline in market value by virtue of adverse publicity and the increasing number of lawsuits relating to Taser's 'stun gun' technology which in turn led to a considerable dampening of investor confidence in the "less than lethal" weapons sector.
- There has been a reduction in market capitalisation of the Company.
- There has been indications that future economic performance of the asset and therefore prospective sales have deteriorated.

Furthermore, given the: -

- current uncertainty that exists in the "less than lethal" industry sector;
 - the stage of the ShockRounds development and product optimisation;
 - the reliance on the expertise of its outsourced relationships and consultants for the ongoing development; and
 - the level of uncertainty relating to commercialisation of the technology in the immediate term;
- the Directors concluded that the carrying value of the ShockRounds technology is, at this point in time, indeterminable and, as such, cannot be carried forward at its previous levels with any level of certainty.

The Directors considered and concluded the Shockrounds Intangible Asset remains impaired.

(c) Impact of possible changes in key assumptions

Key assumptions used in determining the value of the intellectual property value includes the pre tax discount rate applied to the cash flow projections of the Sun Biomedical Laboratories Inc. business model. The model includes current known factors and does not include potential business upside through globalisation.

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Note 15: Trade and other payables

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Unsecured liabilities				
Trade creditors	342,495	377,997	170,955	217,559
Amounts payable to related parties	-	91,667	-	91,667
Accrued Directors Fees	50,626	36,989	50,626	36,989
Sundry creditors and accrued expenses	29,251	40,010	29,251	25,833
	<u>422,372</u>	<u>546,663</u>	<u>250,832</u>	<u>372,048</u>

Amounts payable to related parties is the amount outstanding to the Executives of Sun Biomedical Limited.

Note 16: Borrowings

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Unsecured liabilities				
Bank overdrafts	-	-	-	-
Loan against Rights Issue	-	478,310	-	478,310
	<u>-</u>	<u>478,310</u>	<u>-</u>	<u>478,310</u>

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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 17: Contributed equity

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
397,370,388 (June 2007: 183,965,378) fully paid ordinary shares	24,483,424	21,300,481	24,483,424	21,300,481

	No.	No.	No.	No.
	183,965,378	161,333,712	183,965,378	161,333,712
(a) Ordinary shares - number				
At the beginning of the reporting period	183,965,378	161,333,712	183,965,378	161,333,712
Issue of shares at 20 cents to Taylor Fogelquist on 29 Nov 2005	-	-	-	-
Issue of shares at 12.33 cents for 40% of Sun Biomedical Laboratories Inc. on 29 Nov 2005	-	-	-	-
Issue of shares at 25 cents in lieu of director fees on 29 Nov 2005	-	-	-	-
Issue of shares at 9 cents to Strachan Corporate Pty Ltd on 28 Feb 2006	-	-	-	-
Issue of shares at 14.3 cents to Marshall Freeman on 15 June 2006	-	-	-	-
Issue of 20,908,334 shares at 6 cents in June 2006	-	-	-	-
Issue of shares at 20 cents to Marshall Couper on 12 Sep 2006	-	450,000	-	450,000
Issue of shares at 10 cents to Domain Capital on 12 Sep 2006	-	500,000	-	500,000
Issue of shares at 20 cents to Taylor Fogelquist on 12 Sep 2006	-	90,000	-	90,000
Issue of shares at 6.0 cents on 25 Sep 2006 ¹	-	1,091,666	-	1,091,666
Issue of shares at 6.0 cents on 3 Oct 2006 ¹	-	3,000,000	-	3,000,000
Issue of shares at 4.0 cents in Feb 2007 ¹	-	17,500,000	-	17,500,000
Issue of shares at 1.3 cents - SBN Option Conversion	4,753,457		4,753,457	
Issued Share Capital - Shareholder Applications	428,675		428,675	
Issued Share Capital - Rights Issue at 1.3 cents in July'07	183,965,378		183,965,378	
Issue of Shares at 4.3 cents in December 2007	21,235,000		21,235,000	
Issue of Shares at 4.3 cents in January 2008	3,022,500		3,022,500	
Balance at 30 June 2008	397,370,388	183,965,378	397,370,388	183,965,378

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(b) Ordinary shares – value				
At the beginning of the reporting period	21,300,481	20,243,702	21,300,481	20,243,702
Issue of shares at 25 cents in lieu of director fees on 29 Nov 2005	-	-	-	-
Issue of shares at 12.33 cents for 40% of Sun Biomedical Laboratories Inc. on 29 Nov 2005	-	-	-	-
Issue of shares at 20 cents to Taylor Fogelquist on 29 Nov 2005	-	-	-	-
Issue of shares at 9 cents to Strachan Corporate Pty Ltd on 28 Feb 2006	-	-	-	-
Issue of shares at 14.3 cents to Marshall Freeman on 15 June 2006	-	-	-	-
Issue of 20,908,334 shares at 6 cents in June 2006	-	-	-	-
Issue of shares at 20 cents to Marshall Couper on 12 Sep 2006	-	90,000	-	90,000
Issue of shares at 10 cents to Domain Capital on 12 Sep 2006	-	50,000	-	50,000
Issue of shares at 20 cents to Taylor Fogelquist on 12 Sep 2006	-	18,000	-	18,000
Issue of shares at 6.0 cents on 25 Sep 2006 ¹	-	65,500	-	65,500
Issue of shares at 6.0 cents on 3 Oct 2006 ¹	-	180,000	-	180,000
Issue of shares at 4.0 cents in Feb 2007 ¹	-	700,000	-	700,000
Issue of shares at 1.3 cents - SBN Option Conversion	61,795	-	61,795	-
Issued Share Capital - Shareholder Applications	42,868		42,868	
Issued Share Capital - Rights Issue at 1.3 cents in July'07	2,391,550	-	2,391,550	-
Issue of Shares at 4.3 cents in December 2007	913,105	-	913,105	-
Issue of Shares at 4.3 cents in January 2008	129,968	-	129,968	-
Less share issue costs	(356,343)	(46,721)	(356,343)	(46,721)
Balance at 30 June 2008	24,483,424	21,300,481	24,483,424	21,300,481

Note

1. Shares issued for cash consideration.

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Note 17: Contributed equity (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on the shares.

On a show of hands 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.

Capital Risk Management

The Group's and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the nature of the business, the Group and the parent entity monitor capital on the basis of current business operations and cash flow requirements.

Note 18: Reserves

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Foreign currency reserve				
Balance as at beginning of financial year	(3,974)	1,779	-	-
Currency translation difference during the year	(86,020)	(5,753)	-	-
Balance as at end of the financial year	(89,994)	(3,974)	-	-

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Equity based payments				
Balance as at beginning of financial year	244,212	765,123	244,212	765,123
Expiry of prior period options	(179,675)	(611,837)	(179,675)	(611,837)
Cost of share based transactions	53,854	140,471	53,854	140,471
Options expired during the period	-	(49,544)	-	(49,544)
Balance as at end of the financial year	118,391	244,212	118,391	244,212
Total reserves	28,397	240,238	118,391	244,212

This reserve is used to record the value of equity benefits provided to employees, directors and consultants as part of their remuneration or fees.

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Note 19: Promissory Note and Capital and leasing commitments

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Liability:				
Promissory Note payments for the Sun Biomedical Laboratories Inc. acquisition.				
Payable				
- not later than 1 year	1,018,076	472,981	1,018,076	472,981
- later than 1 year but not later than 5 years	-	1,158,803	-	1,158,803
	<u>1,018,076</u>	<u>1,631,784</u>	<u>1,018,076</u>	<u>1,631,784</u>

The promissory note is non interest bearing unless the Company defaults on its obligations. The Company is in compliance with its obligations.

The liability relates to the Promissory Note payments due under the acquisition agreement of Sun Biomedical Laboratories Inc. The acquisition agreement provided for installment payments in United States Dollars and is secured on a stock pledge of 600 shares in Sun Biomedical Laboratories, Inc capital stock and against the plant, property and equipment and intellectual property of Sun Biomedical Laboratories, Inc.

In June 2008, the Company reached an agreement with Dr Ming and Alice Sun, the founders of SBL, in relation to the final payment of US\$980,000. The Suns agreed to:

- convert US\$490,000 into Shares at \$0.01 per Share, the same issue price as under the Rights Issue;
- be issued with Options on the basis of one Option for every two Shares issued to the Suns under paragraph (a) above, the same ratio as offered under the Rights Issue; and
- receive a US\$490,000 payment following the Rights Issue,

as settlement for the payment of US\$980,000.

The conversion under paragraph (a) and the issue of options under paragraph (b) occurred on 25 August 2008. The payment of US \$490,000 was made on 5 September 2008.

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Note 20: Segment Reporting

	Total Revenue		Economic Entity Profit/(loss) After Income Tax attributable to Members		Total Assets		Total Liabilities	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
(a) Primary Reporting								
- Business Segments								
<i>(i) Discontinued Operations</i>	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<i>(ii) Continuing Operations</i>								
ShockRounds development	-	-	-	(72,709)	-	-	-	-
Drug screening	725,562	655,992	(1,130,677)	(465,727)	(1,171,259)	284,391	171,540	2,230,317
Unallocated	220,054	138,890	(2,426,713)	(1,883,225)	3,619,866	3,787,138	1,268,908	426,440
	945,616	794,882	(3,557,390)	(2,421,661)	2,448,607	4,071,529	1,440,448	2,656,757
(b) Secondary Reporting								
- Geographic Segments								
- Australian external	226,401	184,852	(2,469,259)	(1,801,134)	3,571,282	3,829,295	1,268,908	2,213,764
- United States of America	719,215	610,030	(1,088,131)	(620,527)	(1,122,675)	242,234	171,540	442,993
	945,616	794,882	(3,557,390)	(2,421,661)	2,448,607	4,071,529	1,440,448	2,656,757

Drug Screening

Costs incurred to acquire segment assets were \$62,969 (2007:\$Nil).

Depreciation and amortisation by primary segment was \$546,950 (2007:\$481,452).

Impairment of intangible assets \$1,000,000 (2007: Nil)

Secondary Segment

Cost incurred to acquire segment assets was:

- Australia \$2,180 (2007: \$Nil)
- United States of America \$62,969 (2007: \$Nil)

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Note 20: Statement of Operations by Segments (continued)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Business Segment

Shockrounds development relates to the investment made by the Company in the securing and issuance of the patent for the piezo electric technology.

Drug screening relates to the Sun Biomedical business and the development and sale of screening products for drugs of abuse.

Geographic Segment

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

Australia – the home country of the parent entity and the principal location of management and the financing of the operations.

United States – comprises operations for the manufacture and development of the company's products.

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NOTES TO AND FORMING PART OF THE
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Note 21: Financial instruments

(a) General objectives, policies and processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the Group where such impacts may be material. The board receives monthly financial reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

(b) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when the debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

For the group there is no concentration of credit risk with respect to current and non current receivables as the Group has a large number of customers. Group Policy is that sales are only made to customers that are credit worthy. Credit risk for the parent entity is concentrated in the receivable from Sun Biomedical Australia Pty Ltd. However, this receivable has been impaired by \$1,494,609(2007: \$312,209)

The maximum exposure to credit risk at the balance sheet date is as follows:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	118,223	446,334	112,375	330,376
Loans and receivables	270,890	200,959	177,243	116,835
Loans granted	-	-	1,557,330	428,552
Less: Impairment of loans	-	-	(1,494,609)	(312,209)
	389,113	647,293	352,339	563,554

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 21: Financial instruments (continued)

The fair value of the current receivables approximates their carrying values. The fair value of the non-current receivables which have not been impaired is not material.

There are no allowances against trade receivables (2007: NIL)

Ageing

Receivables ageing according to contractual terms are as follows:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not past due	29,773	23,543	1,395	-
Past due 0- 30 days	17,272	10,432	1,395	-
Past due 31- 60 days	-	15,537	-	-
Over 60 days	12,820	13,928	3,363	-
	<u>59,865</u>	<u>63,440</u>	<u>6,153</u>	<u>-</u>

(c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. It is the policy of the board of Directors that the Treasury maintain adequate committed facilities to be able to meet debts as they fall due..

The following maturity analysis is done on a contractual undiscounted cashflow basis:

Maturity Analysis -Economic Entity 2008

Financial liabilities	Carrying Amount	Contractual Cash flows	<6mths	6-12mths	1-3 years	> 3years
	\$	\$	\$	\$	\$	\$
Trade and other payables	422,372	422,372	422,372	-	-	-
Borrowings	-	-	-	-	-	-
Promissory Note (see Note 19)	1,018,076	1,018,076	1,018,076	-	-	-
	<u>1,440,448</u>	<u>1,440,448</u>	<u>1,440,448</u>	<u>-</u>	<u>-</u>	<u>-</u>

Maturity Analysis -Economic Entity 2007

Financial liabilities	Carrying Amount	Contractual Cash flows	<6mths	6-12mths	1-3 years	> 3years
	\$	\$	\$	\$	\$	\$
Trade and other payables	546,663	546,663	546,663	-	-	-
Borrowings	478,310	478,310	478,310	-	-	-
Promissory Note (see Note 19)	1,631,784	1,631,784	236,491	236,490	1,158,803	-
	<u>2,656,757</u>	<u>2,656,757</u>	<u>1,261,464</u>	<u>236,490</u>	<u>1,158,803</u>	<u>-</u>

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 21: Financial instruments (continued)

(c) Liquidity risk (continued)

Maturity Analysis -Parent Entity 2008

Financial liabilities	Carrying Amount	Contractual Cash flows	<6mths	6-12mths	1-3 years	> 3years
	\$	\$	\$	\$	\$	\$
Trade and other payables	250,832	250,832	250,832	-	-	-
Borrowings	-	-	-	-	-	-
Promissory Note (see Note 19)	1,018,076	1,018,076	1,018,076	-	-	-
	<u>1,268,908</u>	<u>1,268,908</u>	<u>1,268,908</u>	<u>-</u>	<u>-</u>	<u>-</u>

Maturity Analysis -Parent Entity 2007

Financial liabilities	Carrying Amount	Contractual Cash flows	<6mths	6-12mths	1-3 years	> 3years
	\$	\$	\$	\$	\$	\$
Trade and other payables	372,048	372,048	372,048	-	-	-
Borrowings	478,310	478,310	478,310	-	-	-
Promissory Note (see Note 19)	1,631,784	1,631,784	236,491	236,490	1,158,803	-
	<u>2,482,142</u>	<u>2,482,142</u>	<u>1,086,849</u>	<u>236,490</u>	<u>1,158,803</u>	<u>-</u>

The fair value of the current trade and other payables approximates their carrying values. As the promissory note has been settled within 6 months after 30 June 2008 its fair value at that date is not significantly different to its carrying amount.

(d) Market rate risk

Market risk arises from the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk). The company and Group are not subject to other price risk on its financial instruments.

(e) Interest rate risk

Interest rate risk arises on cash and cash equivalents, receivables from related parties and the issued promissory note. The group does not enter into any derivative instruments to mitigate this risk. As this is not consider a significant risk for The Group no policies are in place to formally mitigate this risk

Sensitivity to changes in interest rates:

If interest rates were to move 100 bps up or down in the next 12 months, the following effect on reported profits or losses from all interest bearing financial assets and financial liabilities, is expected:

- The profit effect on the economic entity of an interest rate increase of 1% is \$1,182 (2007: \$4,463) and the profit effect of an interest rate decrease is \$(1,182) (2007:\$(4,463)).
- The profit effect on the parent entity of an interest rate increase of 1% is \$12,948 (2007:\$1,675) and the profit effect of an interest rate decrease is \$(12,948) (2007:\$(1,675)).

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 21: Financial instruments (continued)

(f) Currency risk

In the parent, currency risk arises on the receivables from its US subsidiaries. The group is not subject to currency risk as all transactions in the different geographical segments are in their own functional currency. At 30 June 2008, the receivable from Sun Biomedical Laboratories Inc. has been fully impaired, therefore any movements in exchange rates would not effect reported profits of losses.

(g) Other Price risk

The Group is not exposed to other price risk from the market.

Note 22: Related Parties

No director has entered into contracts with the company since the end of the previous financial year.

Wholly-owned Group

The wholly-owned group consists of Sun Biomedical Limited and wholly-owned controlled entities MDM Technologies Pty Ltd, HGR USA Inc., Sun Biomedical Laboratories Inc., and Sun Biomedical Australia Pty Ltd.

Inter company loans to Sun Biomedical Laboratories Inc. bear interest based on 12 month LIBOR rates plus 100 basis points. This will be reviewed following the finalisation of the Promissory Note payments to the vendor that retains a lien over the business.

Inter company receivables and fees charged between members of the Economic Entity were as follows:-

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Inter company balance due by MDM Technologies Pty Ltd to the parent entity	-	-	-	9,512,017
Impairment writedown	-	-	-	(9,498,506)
Development expense	-	-	-	(13,512)
	-	-	-	-
Inter company management fee charged by HGR USA Inc	-	-	-	(59,198)

All intercompany transactions are on an arms length basis.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 23: Notes to the statements of cash flows

- (a) For the purposes of the statements of cash flows, cash includes cash on hand and in banks net of bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows is reconciled to the relevant items in the Balance Sheet as follows:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash on hand	-	-	-	-
Cash at bank	118,223	446,334	112,375	330,376
Bank overdraft	-	-	-	-
Cash as per cash flow statement	118,223	446,334	112,375	330,376

(b) Reconciliation of operating loss after income tax to net cash outflow from operating activities:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss after income tax	(3,557,390)	(2,421,661)	(3,785,084)	(2,664,990)
Non-cash flows in loss for the year				
Depreciation and amortisation	546,590	481,452	546,590	479,186
Equity based payments	42,867	158,000	42,867	158,000
Net (gain) loss on disposal of investment	-	3,765	-	3,765
Share options expensed	53,854	90,926	53,854	90,926
Share of associated companies net loss (profit) after income tax and dividends	-	3,056	-	-
Loss on disposal of non-current assets	5,896	-	5,896	65,789
Impairment write downs	1,000,000	-	1,000,000	-
Foreign exchange loss	-	700	-	775
Write off Intercompany Loan	-	-	-	427,813
Provision for Diminution in value of investment	-	-	-	137,791
Impairment of loans	-	-	1,182,400	312,209
Unrealised Foreign Exchange Gain (Loss)	(172,170)	(115,051)	92,781	(115,051)
Subtotal	(2,080,353)	(1,798,814)	(860,696)	(1,103,787)
Change in operating assets and liabilities:				
(Increase)/decrease in term trade debtors	3,575	(88,896)	(6,153)	-
Decrease/(increase) in other debtors	63,745	-	44,945	(84,890)
Decrease/(increase) in prepayments	(137,251)	-	(99,200)	-
Decrease/(increase) in inventories	(126,986)	(56,271)	-	-
(Decrease)/Increase in trade creditors and accruals	(124,291)	287,239	(121,216)	199,668
Net cash outflow from operating activities	(2,401,561)	(1,656,742)	(1,042,320)	(989,009)

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 23: Notes to the statements of cash flows (continued)

(c) Non-cash Financing and Investing Activities

Share Issues

428,675 ordinary shares were issued at \$0.10 cents as part of consideration for consulting services. These are included in the Equity Based Payments amount.

Note 24: Discontinued Operations

Nothing to report

Note 25: Share Based Payments

Options may not be offered to a director or associates except where approval is given by shareholders at a general meeting.

Options have been granted to directors, following approval by shareholders, for no consideration and on varying terms. Options issued as part of remuneration to directors and key management personnel is included in the Directors' Report.

In addition options have been granted to various consultants used by the Company.

On exercise, each option is convertible to one ordinary share on receipt of the exercise notice and payment of the exercise price in Australian dollars. Amounts received on the exercise of options are recognised as share capital.

Summary of share based payments expense for the year.

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Share based payments				
- Key Management Personnel	-	108,000	-	108,000
- External Consultants	42,867	50,000	42,867	50,000
Option Based Payments				
- Key Management Personnel	53,854	51,537	53,854	51,537
- External Consultants	-	39,389	-	39,389
	<u>96,721</u>	<u>248,926</u>	<u>96,721</u>	<u>248,926</u>

The External consultants share based payments have been valued at \$42,867.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 25: Share Based Payments (continued)

Set out below is a summary of options granted.

Grant Date	Expiry Date	Exercise Price	Number of Options
21 January 2005	28 January 2009	35 cents	40,000,000
8 September 2006	12 September 2009	10 cents	1,000,000
8 September 2006	30 June 2011	10 cents	20,000,000
24 November 2006	31 December 2008	25 cents	500,000
29 November 2005	31 December 2008	24.89 cents	750,000
15 December 2006	15 December 2008	10 cents	500,000
15 December 2006	31 December 2008	12 cents	428,675
25 July 2007	30 June 2009	1.3 cents	986,263
25 July 2007	31 December 2008	8 cents	8,750,000
25 June 2008	31 December 2010	4.5 cents	4,000,000
25 June 2008	15 September 2011	2 cents	2,000,000
			78,914,938

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 25: Share-based Payments (continued)

	Economic & Parent Entity			
	2008		2007	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Exercise		Exercise
		Price		Price
		\$		\$
Outstanding at the beginning of the year	46,300,000	0.25	76,946,838	0.25
Granted	40,918,395	0.23	2,800,000	0.17
Forfeited	(7,503,457)	0.25	(7,800,000)	0.25
Exercised	-	-	-	-
Expired	(800,000)	0.25	(25,646,838)	0.25
Outstanding at year-end	78,914,938	0.23	46,300,000	0.25
Exercisable at year-end	72,914,938	0.24	6,050,000	0.21

The options outstanding at 30 June 2008 had a weighted average exercise price of \$0.23 (2007: \$0.17) and a weighted average remained contractual life of 1.3 years (2007: 2.1 years). Exercise prices range from \$0.013 to \$0.35 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was 5.9 cents per option.

This price was calculated by using a Black-Scholes option pricing model applying the following inputs at grant date:

	2008	2007
Weighted average exercise price	\$0.23	\$0.17
Weighted average life of the option	1.3 years	2.1 years
Underlying share price	\$0.013	\$0.155
Expected share price volatility	175%	78%
Risk free interest rate	6.64%	5.37%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the expiry date, which may not eventuate in the future.

Included under equity based payments expense in the income statement relating to share-based payment is \$96,721 (2007: \$248,926) and relates, in full, to equity-settled share-based payment transactions. This amount includes for 2008 \$42,867 (2007: \$158,000) in fully paid ordinary shares and \$53,854 (2006: \$90,926) in options expense.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 26: Key Management Personnel

(i) Details of Key Management Personnel

Chairman – non-executive

Mr P King (from 24 February 2005)

Executive directors

Mr B Andrews (from 5 June 2006 to 22 February 2008)

Mr A Paice (from 5 June 2006 to 29 February 2008)

Non-Executive directors

Mr J Hallam (from 24 October 2007)

Mr A Paice (from 29 February 2008)

Key Management Personnel

Mr Jack Kerins (Chief Executive Officer, Sun Biomedical Laboratories Inc, from 22 February 2008)

(ii) Compensation of Key Management Personnel

These remuneration disclosures are provided in the Directors' Report under Remuneration Report and designated as audited.

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employees benefits	532,598	672,887	532,598	672,887
Post-employment benefits	-	-	-	-
Long-term benefits	-	-	-	-
Share-based payments	48,005	159,537	48,005	159,537
	<u>580,603</u>	<u>832,424</u>	<u>580,603</u>	<u>832,424</u>

The amounts owing at balance date are disclosed in Note 15.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 26: Key Management Personnel (continued)

(iii) Shareholdings of Key Management Personnel

Shares held directly and indirectly in the Company:

2008	Balance at the	Granted as	Other changes	Balance at the end
Directors	start of the	remuneration	during the year	of the period
Ordinary Shares	year			
Mr Peter King	-	-	-	-
Mr Jim Hallam	-	-	-	-
Mr Brian Andrews ¹	-	-	-	-
Mr Andrew Paice ²	-	-	5,116,250	5,116,250
	-	-	5,116,250	5,116,250
Other Key Management Personnel				
Ordinary Shares				
Mr Jack Kerins	-	-	-	-
	-	-	-	-

Note:

1. Resigned during the year or ceased to be key management personnel
2. Mr Andrew Paice acquired the shares on market. A further 4,093,000 were acquired post balance date as part of the company's rights issue.

2007	Balance at the	Granted as	Other changes	Balance at the end
Directors	start of the	remuneration	during the year	of the period
Ordinary Shares	year			
Mr Peter King	-	-	-	-
Mr. Brian Andrews	-	-	-	-
Mr. Andrew Paice ²	-	-	-	-
Mr Peter Boonen ¹	64,229,420	-	(64,229,420)	-
Mr. Peter Bartleet ¹	2,812,500	-	(2,812,500)	-
	67,041,920	-	(67,041,920)	-
Other Key Management Personnel				
Ordinary Shares				
Mr Taylor Fogelquist ¹	186,250	90,000	(276,250)	-
Mr Marshall Couper ¹	279,600	450,000	(729,600)	-
	465,850	540,000	(1,005,850)	-

Note:

1. Resigned during the year or ceased to be key management personnel
2. Mr Andrew Paice acquired 4,000,000 shares on market in July 2007 and 1,000,000 in August 2007.

All equity transactions with key management personnel, which relate to the Company's listed ordinary shares, have been entered into on an arms length basis.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
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NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 26: Key Management personnel (continued)

(iv) Option holdings of Key Management Personnel

Options held directly and indirectly in the Company:

2008	Balance at the	Granted	Lapsed /	Balance at the end	Vested and
Directors	start of the	during the	Expired during	of the period	exercisable at
	period	year as	the period		the end of the
		compensation			period
Options					
Mr Peter King	750,000	-	-	750,000	750,000
Mr Brian Andrews ¹	500,000	-	-	500,000	500,000
Mr Andrew Paice ^{1,4}	500,000	-	-	500,000	500,000
Mr Peter Boonen ²	1,250,000	-	(1,250,000)	-	-
	3,000,000	-	(1,250,000)	1,750,000	1,750,000
Other Key Management Personnel					
Jack Kerins ³	-	6,000,000	-	6,000,000	-
	-	6,000,000	-	6,000,000	-

Note

- Options issued as sign on bonus and ratified by shareholders at General Meeting 8 September 2006.
- Resigned or ceased to be key management personnel.
- Options issued as approved by the Board on 20 June 2008.
- 2,046,500 listed options acquired after balance date with an exercise price of 2 cents, expiry date 30 November 2010

2007	Balance at the	Granted	Lapsed / Expired	Balance at the end	Vested and
Directors	start of the	during the	during the period	of the period	exercisable at
	period	year as			the end of the
		compensation			period
Options					
Mr Peter King	750,000	-	-	750,000	500,000
Mr Brian Andrews ¹	-	500,000	-	500,000	500,000
Mr Andrew Paice ¹	-	500,000	-	500,000	500,000
Mr Peter Boonen ²	1,250,000	-	-	1,250,000	1,250,000
	2,000,000	1,000,000	-	3,000,000	2,750,000
Other Key Management Personnel					
Taylor Fogelquist ²	3,000,000	-	3,000,000	-	-
Marshall Couper ²	4,000,000	-	4,000,000	-	-
	7,000,000	-	7,000,000	-	-

Note

- Options issued as sign on bonus and ratified by shareholders at General Meeting 8 September 2006.
- Resigned during the year or ceased to be key management personnel.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 27: Company Details

The registered office and principal place of business of the parent company is:

Sun Biomedical Limited
c/o Tress Cox Lawyers
Level 9
469 La Trobe Street
Melbourne
Victoria, Australia 3000

Note 28: Subsequent Events

The Rights Issue was completed and securities were allotted on 14 August 2008. The total amount raised was \$2.0m. In addition, the company has raised an additional \$998,963m via the placement of Shortfall Securities bringing the total raising to \$2,998,963.

On 21 August 2008, Dr Sun, the founder of SBL was issued with 56,186,217 shares and 28,093,109 options in part settlement of USD 490,000 of the final outstanding payment of USD 980,000 due to him by the Company for the acquisition of SBL. The remaining USD 490,000 was paid to him on 5 September 2008 from the proceeds of the Rights Issue.

Except for the matters discussed above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.



BDO Kendalls

BDO Kendalls Audit & Assurance
(NSW-VIC) Pty Ltd
The Rialto, 525 Collins St
Melbourne VIC 3000
GPO Box 4736 Melbourne VIC 3001
Phone 61 3 8320 2222
Fax 61 3 8320 2200
aa.melbourne@bdo.com.au
www.bdo.com.au

ABN 17 114 673 540

DECLARATION OF INDEPENDENCE BY JUSTIN OWEN TO THE DIRECTORS OF SUN BIOMEDICAL LIMITED

As lead auditor of Sun Biomedical Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sun Biomedical Limited and the entities it controlled during the period.

Justin Owen.

JUSTIN OWEN
Director

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd.

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Dated this 30 day of September 2008, Melbourne



BDO Kendalls

BDO Kendalls Audit & Assurance
(NSW-VIC) Pty Ltd
The Rialto, 525 Collins St
Melbourne VIC 3000
GPO Box 4736 Melbourne VIC 3001
Phone 61 3 8320 2222
Fax 61 3 8320 2200
aa.melbourne@bdo.com.au
www.bdo.com.au

ABN 17 114 673 540

INDEPENDENT AUDITOR'S REPORT

To the members of Sun Biomedical Limited

Report on the Financial Report

We have audited the accompanying financial report of Sun Biomedical Limited, which comprises the balance sheet as at 30 June 2008, 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 of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year

Directors' Responsibility for the Financial 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 controls 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.

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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BDO Kendalls is a national association of
separate partnerships and entities. Liability
limited by a scheme approved under
Professional Standards Legislation.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

- (a) the financial report of Sun Biomedical 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 2008 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the operations of Sun Biomedical Limited and Controlled Entities are subject to significant risk due to the product development activities of the group and the risks inherent in the commercialisation of these products. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Sun Biomedical Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd.

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Justin Owen.

Justin Owen
Director

Melbourne, 30 September 2008

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITY

ABN 18 001 285 230

OTHER INFORMATION**STATEMENT OF SHAREHOLDING****AS AT 19 SEPTEMBER 2008**

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

Twenty Largest Shareholders

Shareholder	Number of shares held	% Holding
1 Log Creek Pty Ltd	57,759,544	7.67
2 Mr Ming Sun + Mrs Alice Sun	56,186,217	7.46
3 Log Creek Pty Ltd	50,000,000	6.64
4 Mr Matthew Thomas Haseler + Mr Peter Haseler + Mr Charles Haseler <Haseler Super Fund A/C>	25,009,026	3.32
5 Dominion Investments Pty Ltd	20,550,492	2.73
6 Mr Ming Sun + Mrs Alice Sun	20,125,032	2.67
7 Priblon Pty Ltd	19,863,795	2.64
8 Daradine Pty Ltd	10,400,000	1.38
9 Mrs Jayne Bird	10,014,666	1.33
10 Mr Andrew John Paice	9,209,250	1.22
11 Haseler AG Supplies Pty Ltd	8,500,000	1.13
12 Mr David Mark Clyne + Mrs Rhonda Jean Clyne	8,250,000	1.09
13 Forbar Custodians Limited <Forsyth Barr Ltd-Nominee	7,100,000	0.94
14 Mr James Dillon + Ms Kathryn Mary Male <Dillion Male Super Fund A/C>	7,012,000	0.93
15 Miss Marni Kate Vaught	6,340,876	0.84
16 Mr Martin Melov	6,000,888	0.80
17 Mr Andrew Podolak	5,200,000	0.69
18 Celtic Capital Pty Ltd	5,000,000	0.66
19 Collins Street Securities Pty Ltd	5,000,000	0.66
20 Chetan Enterprises Pty Ltd	4,389,392	0.58
	341,911,178	45.38

Distribution of Shareholdings

Category (size of holding)	Number of Ordinary shares	Number of Holders
1 - 1,000	26,778	58
1,001 - 5,000	296,582	94
5,001 - 10,000	1,044,954	118
10,001 - 100,000	32,816,973	664
100,001 - and over	663,171,611	616
	697,356,898	1,550

Stock Exchange Listing – Listing has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

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Voting Rights

The voting rights attached to Ordinary shares are as follows:

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Unmarketable parcels

There are 560 shareholdings held in less than the marketable parcels.

Substantial shareholders

The names of the substantial shareholders listed in the holding company's register as at 19 September 2008 are:

Shareholder	Number of shares	% Holding
Log Creek Pty Ltd	107,759,544	14.31
Mr Ming Sun + Mrs Alice Sun	76,311,249	10.13

Listed Option holders

The Company has listed 149,857,963 options with an exercise price of \$0.02 and an expiry date of 30 November 2010.

Twenty Largest Option Holders

	Option Holder	Units	% I/C
1	Log Creek Pty Ltd	25,000,000	16.68
2	Mr Martin Melov	7,000,000	4.67
3	Mr Matthew Thomas Haseler & Mr Peter Haseler & Mr Charles Haseler	6,766,979	4.52
4	Mr David Mark Clyne & Mrs Rhonda Jean Clyne	5,237,388	3.49
5	Merril Lynch (Australia) Nominees Pty Limited	5,000,000	3.34
6	Mr Ming Sun & Mrs Alice Sun	4,472,230	2.98
7	Haseler AG Supplies Pty Ltd	4,250,000	2.84
8	Daradine Pty Ltd	3,700,000	2.47
9	Mr Robert Sinclair Parsonson	3,649,800	2.44
10	Mrs Jayne Bird	2,985,334	1.99
11	Mr Andrew Podolak	2,600,000	1.73
12	Collins Street Securities Pty Ltd	2,500,000	1.67
13	Mr David Cox	2,500,000	1.67
14	Mr Timothy Michael Jones	2,394,318	1.60
15	Chetan Enterprises Pty Ltd	2,194,696	1.46
16	Mr Scott Johnstone	2,100,000	1.40
17	Priblon Pty Ltd	2,098,894	1.40
18	Mr Andrew John Paice	2,046,500	1.37
19	Mr Sam Christopher Slaney	2,000,000	1.33
20	Dominion Investments Pty Ltd	1,995,000	1.33
		90,491,139	60.38

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Distribution of Option holders

Category (size of holding)	Number of Listed Options	Number of Holders
1 - 1,000	5,392	9
1,001 - 5,000	113,711	35
5,001 - 10,000	327,455	41
10,001 - 100,000	6,869,165	151
100,001 - and over	142,542,240	137
	149,857,963	373

ASX Corporate Governance and Best Practice Recommendations

Directors have reviewed the ASX Corporate Governance and Best Practice Recommendations and the principles as set out hereunder:

- 1: Lay solid foundations for management and oversight.
- 2: Structure the board to add value.
- 3: Promote ethical and responsible decision making.
- 4: Safeguard integrity in financial reporting.
- 5: Make timely and balanced disclosure.
- 6: Respect the rights of shareholders.
- 7: Recognise and manage risk.
- 8: Encourage enhanced performance.
- 9: Remunerate fairly and responsibly.
- 10: Recognise the legitimate interests of stakeholders.

These principles have been adopted by the Board where practicable and an outline of the Corporate Governance practices adopted by the Company is set out in the Directors' Report.

CORPORATE DIRECTORY

DIRECTORS

Peter King
Non Executive Chairman

Jim Hallam
Non-Executive Director

Andrew Paice
Non-Executive Director

COMPANY SECRETARY

Alfonso Grillo

AUDITORS

BDO Kendalls Audit and Assurance (NSW-VIC) Pty Ltd

BANKERS

ANZ

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Yarra Falls,
452 Johnston Street
Abbotsford, Victoria, 3067

REGISTERED AND PRINCIPAL OFFICE

Tress Cox Lawyers
Level 9
469 La Trobe Street
Melbourne, Victoria, 3000
Ph: 1 300 728 275
Fax: (03) 9473 2500
Email: info@sunbiomed.com

WEB ADDRESS

www.sunbiomed.com