Australian Innovator of the Year 2008

Fermiscan Holdings Limited

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ABN 51 000 689 725

ASX ANNOUNCEMENT

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FERMISCAN HOLDINGS LIMITED
ABN 51 000 689 725

PRELIMINARY FINAL REPORT
FOR YEAR ENDED 31 DECEMBER 2007
Lodged with the ASX under Listing Rule 4.3A

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Visit Fermiscan's website at www.fermiscan.com.au

Fermiscan Holdings Limited is commercialising a non-invasive diagnostic test for the detection of breast cancer. This test can potentially provide early detection of breast cancer with benefits for women's health including increased survival and treatment options. It is based on the breakthrough discovery that the presence of breast cancer is associated with a change in the structure of hair which can be detected by X-ray diffraction using an intense X-ray beam generated from a synchrotron (a large particle accelerator).

Fermiscan intends to commercialise this simple test for the presence of breast cancer after completion of a 2000-patient validation trial currently being run in Australia. The trial is expected to be completed in the first half of 2008. Pending the successful outcome of this trial, a commercial pilot of the test in Australia is anticipated over the next twelve months with regulatory approvals already in place.

The company has also commenced an international trial to assist regulatory endorsement of the Fermiscan test with a leading Singapore breast cancer hospital. Negotiations are under way to begin trials in the USA, Japan and Europe.

Fermiscan was named 'Australian Innovator of the year' at the Austrade sponsored annual 'Innovation Day Shoot Out' competition in New York in January 2008. The "Innovation Shoot Out" is a national showcase promoting Australia's leading research and technology companies to the US market.

Commentary on Operations

Clinical Trials

In 2007, Fermiscan began a 2,000-patient validation trial with the support of major radiology and diagnostic groups in Australia. The trial was designed to compare results from the current breast cancer screening methods of mammography and ultrasound (and any subsequent biopsy and pathology results) with the Fermiscan test.

Initial progress was delayed as, despite strict validation trial criteria for hair collection, a significant number of samples were damaged through treatments such as dyes, perms and chemical straightening. Criteria for hair collection were revised and collection is continuing.

Fermiscan announced in December 2007 that it had successfully completed the analysis of more than 800 patients and that the trial was expected to be completed in the first half of 2008.

Trial results to date confirmed a high degree of accuracy for the Fermiscan test. Initial trial results were 80% accurate, which compares favourably with published studies for the accuracy of mammography. The Fermiscan test correctly identified

- 77% of women confirmed as being negative for breast cancer by imaging (mammography and ultrasound).
- 82.3% of women diagnosed as positive by mammography and confirmed by pathology.
- 91% per cent of women referred for biopsy as a result of mammography were correctly identified as negative for breast cancer by the Fermiscan test. This suggests the test could potentially reduce unnecessary biopsies if used in conjunction with mammography.

The trial is being governed by an Independent Ethics Committee and is registered with the National Health and Medical Research Council.

Fermiscan commenced a 200-patient clinical trial in Singapore in January 2008. This trial is supported by the KK Breast Centre of the KK Women's and Children's Hospital, the largest women's and children's medical facility in Singapore. A successful trial will assist Fermiscan's entry into Singapore and south-east Asian markets and is part of the company's strategy for the international delivery of the Fermiscan technology.

Licensing and feasibility study

Licensing agreements have been established in seven south-east Asian countries and a feasibility study has been completed in Japan.

Patents

An international family of patents protects Fermiscan's technology. Global patents create an opportunity to develop tests for other pathological states such as prostate cancer and Alzheimer's disease.

Publications

The January 2008 edition of International Journal of Cancer published a landmark scientific paper that supports the potential of Fermiscan's technology. This article is titled "Diagnosis of breast cancer by X-ray diffraction of hair" (volume 122, pages 847-856).

The paper presented the results from 39 women whose breast cancer status was known through previous mammography and biopsy. The data broadly confirmed that breast cancer can be detected by synchrotron X-ray diffraction of hair. The accuracy of diagnosis was 89%, which compared favourably with current breast cancer screening methods. Sensitivity – the ability to detect breast cancer – was 90%, and specificity – the ability to detect the absence of cancer was 87%, confirming the technology's high accuracy.

The positive findings from earlier clinical trials have been published in prestigious international scientific journals including Nature and The International Journal of Cancer.

Synchrotron (x-ray diffraction) beam lines

The company has secured access to a dedicated synchrotron beam line and the x-ray diffraction equipment necessary to complete the Fermiscan validation trial at the Argonne Advanced Photon Source synchrotron in Chicago, USA.

Fermiscan has also canvassed the prospect of a dedicated beam line facility at the synchrotron in Chicago and also with the Australian Synchrotron based in Melbourne, Australia. Fermiscan and the Australian Synchrotron have agreed to form a collaborative action team to design and develop a dedicated commercial beam line for breast cancer testing.

Financial sensitivity analysis

During the year, the company released a financial sensitivity analysis which compared possible Fermiscan breast cancer test volumes for a fully operational year. This included volumes of 80,000, 500,000 and 1 million Fermiscan tests in support of potential national roll out in Australia and the license territories in South East Asia. The analysis assumes successful completion of the 2,000-patient validation trial.

The company can not assess at this time the market penetration of the test however the global market for mammograms is in excess of 100 million annually. The sensitivity analysis showed an EBITDA of AUD $61 million for 500,000 Fermiscan tests. The analysis was predictive in nature, and may be affected by inaccurate assumptions, known or unknown risks and uncertainties, and may materially differ from the results ultimately achieved.

Commentary on Financial Highlights

Cash Position

As at 31 December 2007, cash was $21.0 million. Fermiscan is debt-free.

The net cash used in operating activities for the year was $6.8 million and includes costs for scientific and synchrotron operations totalling $3.4 million. The scientific costs include research and development in addition to synchrotron operations in the United States. The scientific operations support the current 2,000-patient validation trial and contribute to the establishment of synchrotron scientific capability for the future.

The year to date cash flow figures include the March 2007 capital raising of $22.5 million. The capital raising was made to professional and institutional investors by issuing 15 million fully paid ordinary shares at $1.50 per share.

Fermiscan received a further $0.5 million in loan repayments in early January 2008 and expects to receive a further $0.5 million in loan repayments within the next six months.

Accounting for the reverse acquisition of Fermiscan Limited

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% of the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25th October 2006) and therefore control of the combined entity.

Under AIFRS (Australian Equivalents to International Financial Reporting Standards) the business combination arising when Fermiscan Holdings Limited acquired Fermiscan Limited is accounted for as a reverse takeover where Fermiscan Limited is treated as acquiring Fermiscan Holdings Limited for accounting purposes. The consolidated entity presented in this report is deemed as headed by Fermiscan Limited and the financial reports have been prepared based on the accounting standards requirements for a reverse takeover.

Share based expense transactions

The group operates an employee share option plan. Employee share options were granted during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date. The expense for Share based payment transactions creates a reserve of an equal amount called the Share based payments reserve

The amount expensed under share based expense transactions in the financial statements is $232,000.

Audit

The financial statements and notes thereto are in the process of being audited.

Fermiscan Holdings Limited
Results for Announcement to the Market
For the Year Ended 31 December 2007

Financial results

	2007 ($'000)	2006 ($'000)	Movement %
Total revenue	**1,362**	**249**	447%
Net interest income	1,362	249	447%
Depreciation and Lease Amortisation	109	23	374%
Earnings (loss) before interest, tax, depreciation and amortisation (EBITDA) and Share based expense transactions	(7,031)	(3,848)	83%
Earnings (loss) before interest, tax and intangibles amortisation (EBITA) and Share based payment transactions	(7,140)	(3,871)	84%
Loss before Share based payment transactions	**(7,152)**	**(3,881)**	84%
Share based expense transactions	232	3,420	-93%
Income tax attributable to operating profit	-	-	
Net Loss attributable to shareholders of Fermiscan Holdings Limited	**(7,384)**	**(7,301)**	1%

Dividends and Dividend Reinvestment Plan

There were no dividends paid in the last two years a no dividends were proposed. The company does not operate a Dividend Reinvestment Plan.

	As at 31 December 2007	As at 31 December 2006
Net asset backing - cents per share	**15.6**	**6.1**

An explanation of certain key items included in the figures reported above is provided in the commentary pages of this announcement.

Fermiscan Holdings Limited and Controlled Entities
Consolidated Income Statement
For the Year Ended 31 December 2007

	Notes	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
Revenue					
Interest income	3	**1,362**	**249**	**1,246**	**228**
Employee benefits expense		3,164	2,132	208	-
Formation costs		1	348	-	-
Administration costs		168	371	-	-
Scientific & synchrotron operations		3,368	292	-	-
Patent and trademark expenses		26	259	-	-
Legal fees		267	-	89	-
Branding and marketing		435	233	-	-
Occupancy costs		177	123	-	-
Depreciation and amortisation		109	23	-	-
Finance costs		12	11	-	-
Other expenses		787	338	133	309
Total expenses	4	8,514	4,130	430	309
Profit (loss) before Share based expense transactions		**(7,152)**	**(3,881)**	**816**	**(81)**
Share based expense transactions		232	3,420	232	3,420
Profit (loss) before income tax expense (income tax benefit)		**(7,384)**	**(7,301)**	**584**	**(3,501)**
Income tax expense (income tax benefit)	5	-	-	-	-
Profit (loss) attributable to the members of the parent		**(7,384)**	**(7,301)**	**584**	**(3,501)**

Earnings per share

	2007	2006
Basic earnings (loss) – cents per share	(5.3)	(25.0)
Diluted earnings (loss) – cents per share	(3.7)	(17.0)

Fermiscan Holdings Limited and Controlled Entities
Consolidated Balance Sheet
For the Year Ended 31 December 2007

	Notes	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		($'000)	($'000)	($'000)	($'000)
CURRENT ASSETS					
Cash and cash equivalents		20,972	6,009	19,503	2
Receivables	6	1,301	1,432	1,059	1,024
Amount owing by controlled entities		-	-	6,498	2,699
Other	7	115	224	-	-
TOTAL CURRENT ASSETS		**22,388**	**7,665**	**27,060**	**3,725**
NON CURRENT ASSETS					
Receivables	6	-	500	-	500
Investment in subsidiaries	8	-	-	32,017	32,017
Property, plant and equipment	9	655	220	-	-
Intangible assets	10	583	304	-	-
TOTAL NON CURRENT ASSETS		**1,238**	**1,024**	**32,017**	**32,517**
TOTAL ASSETS		**23,626**	**8,689**	**59,077**	**36,242**
CURRENT LIABILITIES					
Payables	11	366	441	47	93
Provisions	12	173	100	-	-
TOTAL CURRENT LIABILITIES		**539**	**541**	**47**	**93**
NON-CURRENT LIABILITIES					
Payables	11	166	139	-	-
TOTAL NON-CURRENT LIABILITIES		**166**	**139**	**-**	**-**
TOTAL LIABILITIES		**705**	**680**	**47**	**93**
NET ASSETS		**22,921**	**8,009**	**59,030**	**36,149**
EQUITY					
Contributed equity	13	34,928	12,781	57,577	35,429
Reserves		3,569	3,420	3,569	3,420
Retained earnings (accumulated losses)		(15,576)	(8,192)	(2,116)	(2,700)
TOTAL EQUITY		**22,921**	**8,009**	**59,030**	**36,149**

Fermiscan Holdings Limited and Controlled Entities
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2007

	Notes	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
Retained earnings (losses) at the beginning of the year		(8,192)	(891)	(2,700)	801
Profit (loss) for the year		(7,384)	(7,301)	584	(3,501)
Retained earnings (losses) at the end of the year		**(15,576)**	**(8,192)**	**(2,116)**	**(2,700)**
Transactions with equity holders in their capacity as equity holders:					
Contributed equity at the beginning of the year		12,780	408	35,429	1,809
Contributions received by Fermiscan Holdings Limited		23,066	2,328	23,066	2,328
Notional capital issued for the purchase of Fermiscan Holdings Limited as part of the reverse acquisition accounting	13	-	2,543	-	-
Shares issued on acquisition of Fermiscan Limited		-	-	-	32,017
Contributions received by Fermiscan Limited		-	8,270	-	-
Fund raising costs		(918)	(768)	(918)	(725)
Contributed equity at the end of the year		**34,928**	**12,781**	**57,577**	**35,429**
Share based expense opening balance		3,420	-	3,420	-
Granted during the year		232	-	232	-
Exercised during the year		(83)	-	(83)	-
Share based expense reserve at the end of the year		**3,569**	**3,420**	**3,569**	**3,420**
Total Equity at the end of the year attributable to members of the parent		**22,921**	**8,009**	**59,030**	**36,149**

Fermiscan Holdings Limited and Controlled Entities
Consolidated Statement of Cash Flows
For the Year Ended 30 December 2007

	Notes	Consolidated Entity 2007 ($'000')	Consolidated Entity 2006 ($'000')	Parent Entity 2007 ($'000')	Parent Entity 2006 ($'000')
CASH FLOW FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(8,141)	(4,780)	(511)	(340)
Interest received		1,362	249	1,246	229
Net cash provided by (used in) operating activities	14	**(6,779)**	**(4,530)**	**735**	**(111)**
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property plant and equipment		(544)	(73)	-	-
Payment for intangible assets		(279)	(192)	-	-
Payment for other current assets		-	(102)	-	-
Loans to controlled entities		-	-	(3,801)	(2,699)
Loans repaid by other entities		500	1,137	500	1,136
Net cash provided by (used in) investing activities		**(323)**	**770**	**(3,301)**	**(1,563)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issue after costs of issue		22,065	9,704	22,065	1,603
Prior year unpaid dividends claimed		-	-	-	-
Proceeds from loan repayments		-	-	-	-
Net cash provided by (used in) financing activities		**22,065**	**9,704**	**22,065**	**1,603**
Net increase in cash and cash equivalents		14,963	5,945	19,499	(71)
Cash and cash equivalents at beginning of year		6,009	64	2	73
Cash and cash equivalents at end of the year		**20,972**	**6,009**	**19,501**	**2**

NOTE 1: BASIS OF PREPARATION

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

Fermiscan Holdings Limited, the legal parent, is a company limited by shares, incorporated and domiciled in Australia.

Under AIFRS the business combination arising when Fermiscan Holdings Limited acquired Fermiscan Limited is accounted for as a reverse takeover where Fermiscan Limited is treated as acquiring Fermiscan Holdings Limited for accounting purposes. The consolidated entity presented in this report is deemed as headed by Fermiscan Limited.

Fermiscan Holdings Limited is the legal parent. The Board of Fermiscan Holdings Limited direct the financial and operating policies of the Group and the shareholders. The Directors are of the opinion that, in accordance with the requirements of AASB 3, Fermiscan Holdings Limited cannot be identified the acquirer. In the opinion of the Directors, the acquiring entity is considered to be Fermiscan Limited. This conclusion is based on an assessment of the relative fair values of the combining entities.

As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This equity account called "Other contributed equity" is similar in nature to share capital and is not available for distribution. This equity account represents a net adjustment for the replacement of the legal parent's equity with that of the deemed acquirer.

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

(a) Basis of preparation of the financial report

The financial report of Fermiscan Holdings Limited and controlled entities, and Fermiscan Holdings Limited as an individual parent entity comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The financial statements comply with International Financial Reporting Standards (IFRS).

Summary of the significant accounting policies under AIFRS:

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Fermiscan Holdings Limited controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 18.

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% in the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25th October 2006) and therefore control of the combined entity. Accordingly the transaction is accounted for as a reverse acquisition under AIFRS. This financial report discloses the consolidated financial statements with the Fermiscan Holdings Limited acquisition of Fermiscan Limited accounted for as a reverse acquisition.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(c) Revenue recognition

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

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. Dividends received from associates and joint ventures are accounted for in accordance with the equity method.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Balance Sheet.

(e) Property, plant and equipment

Cost and valuation

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

The carrying amount of plant and equipment is reviewed for impairment annually by directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement.

Depreciation

The depreciable amounts of fixed assets are depreciated on a straight-line basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2007	**2006**
Plant and equipment:	*2.5 to 5 years*	*2.5 to 5 years*
Motor vehicles:	*5 years*	*5 years*

(f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Operating leases

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

(g) Intangibles

Trademark and patents

Trademark and patents are recognised at cost and are amortised over their estimated useful lives, which range from 5 to 20 years, once commercial production is commenced. Trademarks and patents are carried at cost less accumulated amortisation and any impairment losses.

Research and development

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced. Other development expenditure is recognised as an expense when incurred.

(h) Impairment of assets

Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(i) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

The parent entity and its controlled entities intend to form an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group also intends to enter into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(j) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Share based expense transactions

The company operates an employee share option plan. In addition Directors and employees were granted options during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

Superannuation

Contributions are made by the Group to employee superannuation funds which provide accumulated benefits to employees.

(k) Financial instruments

Classification

The group classifies its financial instruments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Held-to-maturity investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

Loans and receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Investments in subsidiaries not included in the above categories are reflected at cost less impairment of value.

(l) Foreign currencies

Functional and presentation currency

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

Transactions and balances

Fermiscan Holdings Limited and its subsidiaries presently transact in foreign currencies. Transactions in foreign currencies of entities within the consolidated entity are translated into the functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Resulting exchange differences arising on settlement or re-statement would be recognised as revenues and expenses for the financial year.

(m) Investments

Investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as available for sale, are measured at fair value.

(n) Rounding of amounts

The company has applied the relief available under ASIC Class order 98/100, accordingly amounts in financial statements have been rounded off to the nearest $1,000.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

Critical accounting estimates and assumptions

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Valuation of expense based payments:

Equity settled share based payments are adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

NOTE 3: REVENUE

	Notes	Consolidated Entity		Parent Entity	
		2007 ($'000)	2006 ($'000)	2007 ($'000)	2006 ($'000)
Revenues from operations					
Interest Income		1,362	249	1,246	228

NOTE 4: PROFIT (LOSS) FROM OPERATIONS

	Consolidated 2007 ($'000)	Consolidated 2006 ($'000)	Parent 2007 ($'000)	Parent 2006 ($'000)
Loss from operations before income tax has been determined after the following specific expenses				
Employee benefits expense	2,835	2,058	208	-
Superannuation	329	74	-	-
Depreciation of non-current assets				
Plant and equipment	82	10	-	-
Motor vehicles	27	13	-	-

NOTE 5: INCOME TAX

	Notes	Consolidated Entity		Parent Entity	
		2007 ($'000)	2006 ($'000)	2007 ($'000)	2006 ($'000)
The prima facie tax, using tax rates applicable in the country of operation on profit differs from the income tax provided in the financial statements as follows:					
Profit (loss) before income tax		(7,384)	(7,301)	584	(3,501)
At the statutory income tax rate of 30% (2006: 30%)		(2,215)	(2,190)	175	(1,050)
Tax effect of amounts which are not deductible in calculating taxable income					
Share based payments		70	1,026	70	1,026
Tax losses and timing differences not recognised as future tax benefits		(2,145)	(1,164)	105	(24)
Income tax expense		-	-	-	-

Tax losses and timing differences are not recognised as future tax benefits

NOTE 6: RECEIVABLES

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
CURRENT				
Trade and other receivables	301	432	59	24
Secured loan to unrelated entity (1)	1,000	1,000	1,000	1,000
	1,301	1,432	1,059	1,024
NON-CURRENT				
Secured loan to unrelated party (1)	-	500	-	500

(1) The loan is secured by registered first mortgage over real property held by a company associated with a former director, Mr G M Lorentz.

NOTE 7: OTHER CURRENT ASSETS

	Notes	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
Prepayments		82	90	-	-
Unexpired interest charges		33	33	-	-
Other assets		-	101	-	-
		115	224	-	-

NOTE 8: OTHER FINANCIAL ASSETS

NON-CURRENT

Investments at cost comprise:

	Consolidated Entity 2007	Consolidated Entity 2006	Parent Entity 2007	Parent Entity 2006
Unlisted shares – investment in controlled entities	-	-	32,017	32,017

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity 2007	Consolidated Entity 2006	Parent Entity 2007	Parent Entity 2006
Plant & equipment				
At cost	467	96	-	-
Accumulated depreciation	(86)	(10)	-	-
	381	86	-	-
Motor vehicles				
At cost	320	147	-	-
Accumulated depreciation	(46)	(13)	-	-
	274	134	-	-
Total plant and equipment	655	220	-	-

NOTE 10: INTANGIBLES

	Consolidated Entity 2007	Consolidated Entity 2006	Parent Entity 2007	Parent Entity 2006
Trademark and patents, at cost	583	304	-	-
Opening net book amount	304	112	-	-
Additions	279	192	-	-
Amortisation charge	-	-	-	-
Impairment charge	-	-	-	-
Closing net book amount	583	304	-	-

NOTE 11: PAYABLES

	Notes	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
CURRENT					
Trade payables		169	230	47	93
Other payables		153	179	-	-
Hire purchase liabilities	20	44	32	-	-
		366	441	47	93
NON-CURRENT					
Hire purchase liabilities	20	166	139	-	-

The hire purchase liability is secured by the assets subject to the agreement

NOTE 12: PROVISIONS

	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
CURRENT				
Employee entitlements	173	100	-	-

NOTE 13: CONTRIBUTED EQUITY

	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
(a) Issued and paid up capital				
Ordinary shares fully paid	34,928	12,781	57,578	35,429

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

(b) Movements in shares on issue	Legal Parent Entity 2007 Number of shares ('000)	Legal Parent Entity 2007 ($'000)	Legal Parent Entity 2006 Number of shares ('000)	Legal Parent Entity 2006 ($'000)
Beginning of the financial year	126,479	35,429	8,964	1,809
Issued during the year	16,608	22,982		
Public offer Prospectus	-	-	7,761	2,328
Shares issued for the purchase of Fermiscan Limited	-	-	110,024	32,017
Employee share option exercised	-	84	-	-
Deduct: Share issue costs	-	(918)	-	(725)
End of the financial year	143,087	57,577	126,749	35,429

(c) Share Options

Employee share option plan
The company offered employee participation in the Employee share option plan as a long-term incentive and as part of the remuneration arrangements. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

During or since the end of the financial year, 450,000 (2006: 5,000,000 options) have been granted under the Employee share option plan. The market value of ordinary Fermiscan Holdings Limited shares closed at $1.02 on 31 December 2007.

(d) Share Options- movements

	2007 Number	Weighted average exercise price	2006 Number	Weighted average exercise price
Outstanding at beginning of year	61,000,000	30 cents	-	-
Granted during the year	450,000	$1.50	61,000,000	30 cents
Forfeited during the year	-	-	-	-
Exercised during the year	(1,608,000)	30 cents	-	-
Expired during the year	-	-	-	-
Outstanding at year end	59,842,000		61,000,000	30 cents

NOTE 14: CASH FLOW INFORMATION

	Notes	Consolidated Entity 2007 ($'000)	Consolidated Entity 2006 ($'000)	Parent Entity 2007 ($'000)	Parent Entity 2006 ($'000)
Reconciliation of the net profit (loss) after tax to the net cash flows from operations:					
Net profit (loss)		(7,384)	(7,301)	584	(3,501)
Non-cash Items					
Depreciation and amortisation		109	23	-	-
Provision for diminution in advances		-	-	-	-
Share based expense transaction		232	3,420	232	3,420
Changes in assets and liabilities					
(Increase)/decrease in receivables		131	(329)	(34)	-
(Increase)/decrease in other assets		108	(122)	-	-
Increase/(decrease) in trade and other creditors		(48)	(320)	(47)	(30)
Increase/(decrease) in employee entitlements		73	100	-	-
Net cash flow from (used in) operating activities		**(6,779)**	**(4,529)**	**735**	**(111)**

NOTE 15: EARNINGS PER SHARE

	2007 Number of shares ('000)	2006 Number of shares ('000)
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit (loss)	(7,384)	(7,301)
Earnings used in calculating basic and diluted earnings per share	(7,384)	(7,301)
Weighted average number of ordinary shares used in calculating basic earnings per share	139,386	28,565
Effect of dilutive securities:		
Share options	60,298	13,683
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	199,684	42,428

NOTE 16: COMMITMENTS AND CONTINGENCIES

	Consolidated Entity		Parent Entity	
	2007 ($'000)	2006 ($'000)	2007 ($'000)	2006 ($'000)
Lease expenditure commitments				
Operating leases (non-cancellable): (i) Operating leases related to office premises with lease terms of three years, with an option to extend for a further three years				
(ii) Minimum lease payments				
– Not later than one year	195	152	-	-
– Later than one year and not later than five years	97	281	-	-
– Later than five years	-	-	-	-
– Aggregate lease expenditure contracted for at reporting date	292	433	-	-

NOTE 17: AUDITOR'S REMUNERATION

	Notes	Consolidated Entity		Parent Entity	
		2007 ($'000)	2006 ($'000)	2007 ($'000)	2006 ($'000)
Amounts received or due and receivable for:					
An audit or review of the financial report of the entity and any other in the consolidated entity					
– KPMG		-	-	-	17
– Pitcher Partners		64	38	-	38
		64	38	-	55
Other Services					
– Pitcher Partners					
Tax compliance, tax consulting and earlier years tax returns		115	-	-	-

NOTE 18: RELATED PARTY DISCLOSURES

(a) The consolidated financial statements include the financial statements of Fermiscan Holdings Limited and its controlled entities listed below:

	Country of Incorporation	Percentage Owned	
		2007	2006
Parent Entity:			
Fermiscan Holdings Limited	Australia		
Subsidiaries of Fermiscan Holdings Limited			
Fermiscan Limited	Australia	100%	100%
Fermiscan Australia Pty Ltd	Australia	100%	100%
Fermiscan BCT Pty Ltd	Australia	100%	100%
Fermiscan USA	USA	100%	100%

(b) The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Wholly-owned group transactions

Fermiscan Limited acts as the principal operating company for the group, incurring most of the day to day expenses. Fermiscan Australia Limited is the principle patent holder.

Fermiscan USA incurred costs which have been cross charged to Fermiscan Limited at cost plus a small mark-up.

Transactions with associates

Fermiscan Holdings Limited General Counsel, Richard Toltz, is a consultant to Piper Alderman, the Company's solicitors, who are paid for legal services provided to the Company at their normal commercial rates.

NOTE 19: SEGMENT INFORMATION

The consolidated entity operated in one business segment being the commercialisation of a non- invasive diagnostic test for the detection of breast cancer. The consolidated entity operated predominately in Australia.

NOTE 20: FINANCIAL INSTRUMENTS

(i) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: Over 1 to 5 years		Fixed interest rate maturing in: More than 5 years		Non-interest bearing		Total carrying amount as per Balance Sheet		Weighted average Effective interest rate	
	2007 ($'000')	2006 ($'000')	2007 ($'000')	2006 ($'000')	2007 ($'000')	2006 ($'000')	2007 ($'000')	2006 ($'000')	2007 ($'000')	2006 ($'000')	2007 ($'000')	2006 ($'000')	2007 %	2006 %
(i) Financial assets														
Cash	20,972	6,009	-	-	-	-	-	-	-	-	20,972	6,009	7.00%	5.00%
Trade and other receivables	-	-	-	-	-	-	-	-	301	432	301	432	na	na
Secured loans	-	-	1,000	1,000	-	500	-	-	-	-	1,000	1,500	10%	10%
(ii) Financial liabilities														
Trade creditors	-	-	-	-	-	-	-	-	169	231	169	231	-	-
Other creditors	-	-	-	-	-	-	-	-	154	179	154	179	-	-
Finance lease liability	-	-	44	32	166	139	-	-	-	-	210	171	7.80%	7.80%

(ii) *Credit risk exposures*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in Balance Sheet and Notes to the Financial Statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity, other than the amounts due by Kimberley Services Limited.

NOTE 20: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 31 December 2007 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 31 December 2007, of the consolidated entity, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 31 December 2007, of the consolidated entity.

fermiscan®
Australian Innovator of the Year 2008

COMPLIANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

This report and the accounts upon which the report is based use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has formally constituted audit committee.

David Young
Managing Director

28 February 2008