



'Defining Signals'



> Sleep Diagnostics > Brain Research > Neurodiagnostics > Doppler Sonography > Neuromedical Supplies

Annual Report 2005

During the last financial year the following key achievements of the business were delivered:

Achieved annual
global sales
(2004/05) of:

\$38M

Acquired DWL business in Germany.
A leading company in transcranial
Doppler technology.

Vice President
of Marketing
Americas
appointed.

Vice President
of Sales
Americas
appointed.

Growth of
global supplies
business over the
past year.

31%

Employment of European and
Asia Pacific Business Directors

Renewed focus on fine tuning our
processes to improve efficiencies so that we
are well positioned for profitable growth.

Achieving the

Business





right balance

Innovation

Compumedics remains committed to developing innovative products and technology for medical diagnostics:

Curry 5.0 released. World's leading source reconstruction software for brain research.

R&D spending this year as a percentage of revenues:

21%

As the company grows, research and development spending will level out at around 12% of revenues.

Revenues achieved from Siesta in 2005:

\$2.1M

Compumedics released the Siesta 802 during 2005. Siesta 802 is the second generation Siesta device with true WiFi capability.

The company expects to release six new products during the 2006 financial year.

FINANCIAL SUMMARY

ALL FIGURES IN A\$M UNLESS OTHERWISE STATED

	2005	2004
Operating Revenue	38.2	34.0
(Loss)/earnings before interest, income tax, depreciation and amortisation (EBITDA)	(2.6)	2.9
(Loss)/earnings before interest and income tax (EBIT)	(3.9)	2.4
Net operating (loss)/profit after tax (NPAT)	(3.9)	2.4
Research and development costs as a percentage of operating revenue	20.7	19.1
Total assets	24.5	24.5
Shareholders funds	9.3	13.9
Net tangible assets per share (cents)	5.7	9.9
Weighted average number of shares (million)	140	140
Earnings per share (basic) (cents)	(2.8)	1.7
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents)	(1.8)	2.1

UNDERSTANDING THE NUMBERS

Revenues: Revenues increased by 17% from \$34.0m to \$38.2m over the previous corresponding period.

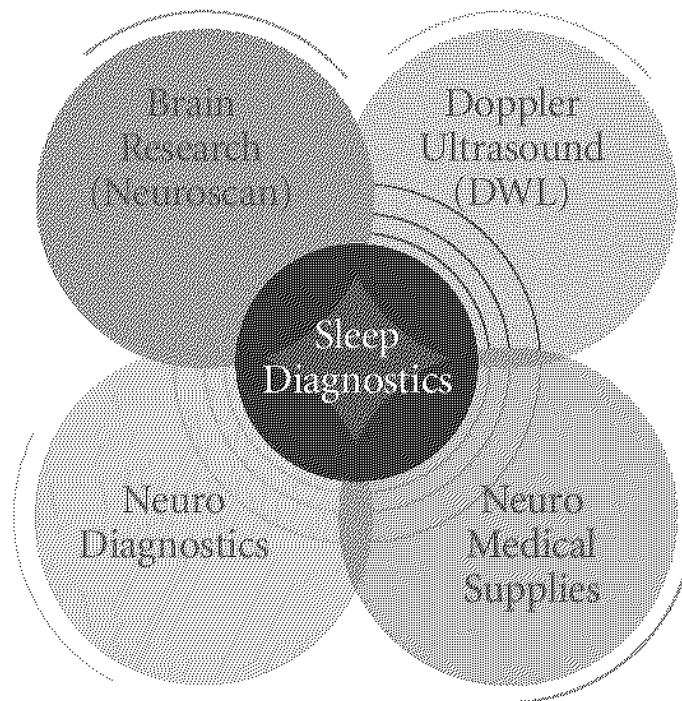
EBITDA: declined from a \$2.9m profit to a loss of \$2.6m in the current year due to the marketing and sales issues within the business.

NPAT: The business lost \$3.9m this year compared to a \$2.4m profit last year due to marketing and sales issues within the business.

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Compumedics Limited
ABN 93 006 254 894
Annual General Meeting
Thursday 27th October 2005
at 10.30am
To be held at Compumedics Limited
30-40 Flockhart Street Abbotsford
Victoria 3067

‘Our *focus...*



Building a world-class medical diagnostic technology company.

Since 1987, Compumedics' strategy has focused on developing its core competency – Sleep Diagnostics – which has enabled the company to become one of the leaders in this growing international healthcare market. In recent years, Compumedics has leveraged its Sleep Diagnostics technology platform to develop new opportunities in neurological research and Doppler ultrasound as we build a world-class medical diagnostic technology company. Today, Compumedics' technologies and products are distributed to clients around the globe, helping millions of people who suffer from debilitating sleep, neurological and other healthcare problems.

...remains firm.'

A focused stra

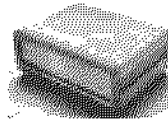
For 18 years, Compumedics' focus in Sleep and associated medical disorders has established a solid platform for growth.

Compumedics established
David Burton founded Compumedics to design and manufacture medical electronics. Prior to Compumedics, analysis and diagnosis depended, in large part, upon manual recording methods, which were very time consuming and costly to implement. The sleep monitoring system developed by Compumedics comprises powerful computer-based hardware and sophisticated software programs which eliminate thousands of pages of paper readings and countless hours of work by technicians, freeing them for more productive work.

Computer-Aided Sleep Scoring system released
Dr M.W. Johns and David Burton released an abstract: An improved Method for EEG Analysis and Computer-Aided Sleep Scoring. This system is the basis for Compumedics current sleep staging software that is now recognised throughout the world.

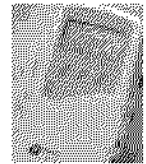
P-Series and S-Series released
Compumedics announced the release of the P-Series Portable Sleep Monitoring System with features including intelligent CPAP control. Compumedics released its S-Series optical erasable disk storage sleep systems.

S-Series – the Australian digital sleep system in Asia Pacific



NASA contracts won for International Space Station and Space Shuttle flight preparation
NASA chose Compumedics P-Series Portable Sleep Monitoring System for the 1998 Neuro-mission Space Shuttle flight preparations.

Used by NASA and STHS.



Compumedics entered into co-operation with the US\$5 billion dollar Japanese conglomerate, Teijin for the development of the Japanese sleep market.

Compumedics developed its Paperless EEG system in conjunction with world-renowned EEG researchers and technicians including Dr Sam Berkovic and Mr Milosh Vosnansky of the Austin Hospital Neurology Department – leading epilepsy centre in the Southern Hemisphere.

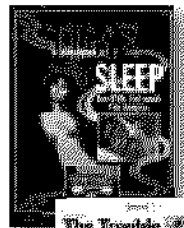
Compumedics was awarded a patent for its on-line analysis.

Compumedics was awarded AS3901/ISO9001 Total Quality Management certification by NATA

Key awards and wins
Compumedics was awarded the European CE mark for Quality and Good Manufacturing Processes. Compumedics won the contract to supply medical hardware for the International Space Station's Human Research Facility (HRF) under contract to NASA.

1987

Epworth installs first Sleep Disorders Unit
Compumedics' first sleep system was installed at the Epworth Hospital Sleep Disorders Unit (Melbourne, Victoria). TIME magazine and the television series Beyond 2000 both featured the Epworth sleep center.



Globally read TIME magazine cover and article brings the "Trouble with Sleep" to the world.



1991

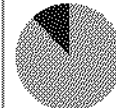
Royal Prince Alfred Hospital installation
Compumedics sleep equipment was chosen by the internationally recognised Sleep Disorder Centre at the Royal Prince Alfred Hospital, Sydney. This centre, under the direction of Prof. CE Sullivan (University of Sydney) was responsible for the breakthrough discovery in the treatment of sleep apnoea with nasal CPAP in 1981.

NZ's first Sleep Laboratory installed
Compumedics installed New Zealand's first fully computerised sleep laboratory at Green Lane Hospital.

Sales revenue

\$1.7M

Sales split



Domestic \$1.5m
Export \$0.2m

1995

Chosen for world's largest sleep study
Compumedics won the competitive US Government-funded contract to supply the equipment for the world's largest sleep study (6000 patients). The five year Sleep Heart Health Study (SHHS) was won against a field of 22 competitors, including multinationals. Compumedics supplied 40 P-Series Sleep Monitoring Systems along with 9 replay and 6 analysis systems. The equipment selection committee was made up of sleep experts from 11 leading University Hospitals across the USA.

Compumedics was granted IEC 601-1 patient safety certification for its S-Series and P-Series products.

tegy in action

Building a world-class medical diagnostic technology company.

Compumedics recognised

Compumedics was named Australian Exporter of the Year.

Compumedics was awarded the Commonwealth Bank Small to Medium Innovative Manufacturer Award.

Compumedics was awarded the 1998 Governor of Victoria Award for Victorian Exporter of the Year.

Compumedics was awarded the 1998 Governor of Victoria Export Award for Small to Medium Innovative Manufacturer.

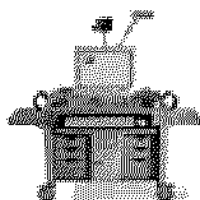
Compumedics was awarded the 1998 AusIndustry Innovation Award.

Compumedics was awarded the 1998 Telstra Innovation Award.

Compumedics' ASX listing

Compumedics listed on the Australian Stock Exchange.

E-series EEG/PSG system receives FDA clearance to market in the USA.



Somté – "holter-style" recording for both cardiac and respiratory data

Somté receives European clearance

Somté receives clearance by the European Union to Market

Compumedics' completes first acquisition – Neuroscan.

Sales revenue

\$20.2M

Compumedics acquires

German based DWL

Electronische Systeme GmbH

FDA approval for Summit IP

Summit IP receives FDA clearance to market in the USA

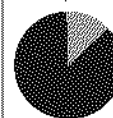
FDA approval for SynAmps2

SynAmps2 receives FDA clearance to market in the USA

Sales revenue

\$34.0M

Sales split



Domestic \$4.3m
Export \$29.5m
Other \$0.2m

1998

1999

2000

2001

2002

2003

2004

1997

P-Series products wins award and FDA approval

Compumedics' P-Series wins a Highly Commended Award at the Australian Engineering Excellence Awards.

Compumedics was awarded the 1997 Premier's Award for Technological Innovation in the Telstra & Victorian Government Small Business Awards.

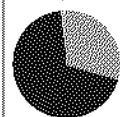
FDA approval for P-Series

P-Series receives FDA clearance to market in the USA.

Sales revenue

\$5.4M

Sales split



Domestic \$1.6m
Export \$3.7m
Other \$0.1m

Compumedics awarded

Compumedics was named Small Business of the Year at the Telstra and Australian Government Small Business Awards.

Compumedics won the AusIndustry Innovation Award at the Telstra and Australian Government Small Business Awards.

Compumedics won the Ansett Australia Business Owner Award at the Telstra and Victorian Government Small Business Awards.

Compumedics was awarded the 1999 Business Asia Best Australian Small Medium Business Activity in Asia Award.

2001

GMP receives more recognition

Compumedics won the 2001 Australian Export Award for Small to Medium Manufacturers.

Compumedics won the 2001 Governor of Victoria Export Award for Small to Medium Manufacturer.

Compumedics won the AVCAE (Australian Venture Capital Association Limited) award for Best Early Stage Investment for 2000/2001.

FDA approval for Siesta

Siesta Systems receives FDA clearance to market in the USA.



Siesta 802™ – LAN Network ready system for sleep and EEG.

\$10 million deal signed with Draeger Medical

Compumedics signs the largest distribution deal to date worth A\$10 Million with Draeger Medical (Germany).

FDA approval for Somté

Somté cardio-respiratory System receives FDA clearance to market in the USA.

Sales revenue

\$32.1M

2005

DWL division established for blood-flow Doppler technology.

Key distributor agreement in China with Celki Medical Company.

Staff globally at June 30



Australasia 42%
USA 38%
Europe 20%

Sales revenue

\$38.2M

Chairman's address



Dear Compumedics Investors and Stakeholders,

We have closed one of our more challenging years at Compumedics. However, the company is now stronger for the experience which includes the successful acquisition of DWL-Germany; the strengthening of our global sales and marketing force; the implementation of initiatives designed to improve margins, profitability and cash; and clearing the way for European business growth.

June 30, 2005 financial year end performance overview:

This year was an extraordinary year of correction and adjustment at Compumedics. While we have felt some short-term pain, I believe we are making the hard decisions and changes necessary to sustain growth and return to profitability moving forward. Currently the strength of the sales pipelines and the outcomes of our cost-reduction programs appear to reflect positively for the financial year ahead. The company must continue on its growth trajectory to increase its value. Our technology and market developments are on target and we expect sustainable revenue growth with profits and cash generation to return in 2006.

Revenues for the year ended June 30, 2005 were \$38 million, a 12% increase over the year ended June 30, 2004, and a loss after tax of \$3.9m, compared to a profit of \$2.4m for the previous corresponding period. The trading result was driven by lower sales in the core business, one-off costs associated with the acquisition of DWL, restructuring costs associated with global sales and marketing, and non-cash foreign-exchange losses associated with the US and European businesses as the Australian dollar continued to appreciate against those currencies. Below par operational margins also contributed to the loss. An operational restructure and a series of cost-reduction initiatives are now underway. Increased marketing and sales expenses have been incurred to underpin future growth.

Earnings before interest, tax, depreciation and amortisation (EBITDA) declined to a loss of \$2.6m for the year ended June 30, 2005 compared to a \$2.9m profit in the previous corresponding period.

Net cash for the year ended June 30, 2005 decreased by \$3.0m. This compares to a \$2.9m increase in cash for the year ended June 30, 2004. The decrease in cash was driven by the operating performance of the business, which is being addressed. In addition, the Company repaid loans of \$1.4m and paid a dividend of \$0.7m.

Research and development expense, at \$7.8m for the year ended June 30, 2005, were 21% of revenues. This high level of investment in R&D reflects Compumedics' continued strategic commitment to sleep, neurology and Doppler blood-flow technology, along with our thriving pipeline of new products and technology, underpinning our above industry-average sales growth. The increase in R&D expenditure as a percentage of sales was primarily driven by the acquisition of DWL in the current year. Compumedics expects that, as it continues to grow, R&D expense will level out to around 12% of revenues on an on-going basis within 3 years, while also serving to underpin many years of sustainable growth.

Outlook and Strategy Moving Forward:

As stated in the updated guidance to market on July 22, 2005, the company expects that it will build on its 2005 performance during 2006, delivering revenues of at least \$44 million.

The company announced during the fourth quarter of last financial year the initiatives being taken to strengthen the sales and marketing teams in the US and Europe with appointments of high-performance executives. The business has also strengthened its Asia-Pacific sales and marketing resources during late June and July 2005.

These appointments indicate that the company is likely to be able to continue to achieve sustainable revenue growth rates and positive earnings in 2006 and beyond.

The strategy of the Company remains sound. In particular, discussions continue with USA advisers and investors as the Compumedics business is particularly strong in the USA where almost 50% of the Company's revenue and people are now based.

A further strategic focus for the year ahead will see intense focus upon new value-adding medical-innovation outcomes, while at the same time restraining R&D expenditure.

In September 2004, Compumedics acquired German-based DWL, enabling Compumedics to expand its global operations into the neuro-vascular and cardio-vascular diagnostic fields. This is not dissimilar to the infrastructure footprint that the acquisition of the Neuroscan business in the USA provided to our business in that market.

Compumedics is a global medical diagnostic company with world leadership in three of the most exciting high-growth sectors with some 12,000 systems installed, including our core and pioneering sleep-diagnostics (Sleep Division), neurodiagnostics (Neuroscan and Neuroscience Divisions), and non-invasive blood-flow diagnostics (DWL Division) businesses. All of these fields were pioneered or discovered in the 1980s, validated in the 1990s and are only now undergoing rapid commercialisation into the rapidly expanding \$1 billion plus global market.

Today, the company has 70 distributors world-wide and has increased its sales by more than 4-fold from \$9 million in 1999 to the current \$38 million, reflecting its continued commitment to an effective sales and R&D organisation.

Our main objectives remain focused, and our resolve to improve margins through ongoing elimination of waste, while maintaining our high growth remains firm. We look forward to communicating with shareholders as we stay the course, lift our game, and improve our company's value.

Yours sincerely,

David Burton
Compumedics Ltd CEO, Chairman

How would you summarise the financial performance of the business in the last twelve months?

The financial results were not satisfactory and we have now implemented a number of changes and programs in order to return the company to positive cash flow and profitability.

During the course of the second half of the financial year Compumedics had to deal with marketing and sales issues in each of its key markets, being the USA, Japan and Germany.

Compumedics is an ambitious, high-growth, but still relatively small, global medical technology company. As such, we need to focus on growth to reach a size that approximates critical mass in the markets in which we operate.

As we announced during the second half of the 2005 financial year we have taken remedial steps and expect that over Q1 and Q2 of this current financial year to be able to report the tangible benefits of these new resources to the Company. As also mentioned, we have taken firm steps to correct our operational margins and sales and marketing performance to our traditional higher levels.

Why did you purchase DWL and how did this impact the business during the year?

We purchased the DWL business because of their clear technological leadership in the field of Transcranial Doppler (TCD). TCD is the measurement of blood flow through the brain using ultrasound.

The acquisition of this technology by Compumedics further strengthens our brain-function intellectual property and has provided the business with a strong infrastructural base for Europe from which we can grow all of our businesses. As earlier mentioned, this is not dissimilar to the infrastructure footprint that the acquisition of the Neuroscan business in the USA provided to our business in that market.

In the 2005 financial year DWL contributed approximately \$5.7m in revenues for the 10 months that it was accounted for in the Compumedics group financial results. On an earnings basis the DWL business lost approximately \$0.4m.

Excluding the DWL revenues are you satisfied with the revenue growth of the business?

No, we are not satisfied or content with the current level of sales growth.

The Company has swiftly taken action over the course of the last three to four months to address this issue and expects to report over the quarters ahead on the positive tangible evidence that these changes are bringing about. You may have noted there have been some new appointments in regard to high performing staff and of course there have also been some changes amongst our poor performing areas. This focus will continue.

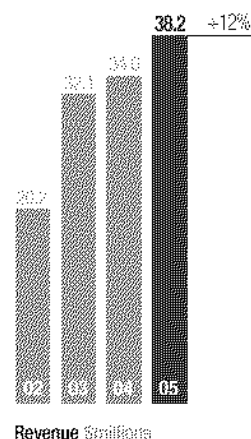
The DWL acquisition, as with all acquisitions, demanded some short term sacrifice. However, in the medium to long-term DWL provides significant business synergies, including an expansion of our distribution network, and a broader portfolio of Compumedics diagnostic devices.

Did foreign currency movements impact this year's result?

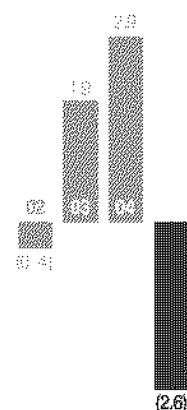
The continuing appreciation of the Australian Dollar against the US Dollar did play a role in this years result but not to the extent of last years impact. The business did book an \$0.8m foreign exchange loss associated with the revaluation of the Company's off-shore assets in the USA and Germany.

The Company has reviewed the impact of foreign exchange movements on the Company's financial performance since listing in December 2000 and determined that over that period of time, foreign exchange movements balanced themselves out.

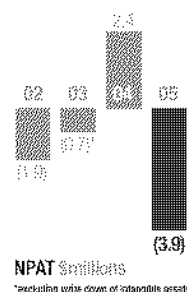
The Company does not anticipate a significant impact on the 2005/2006 financial results due to foreign exchange movements between the USD/AUD and the EUR/AUD.



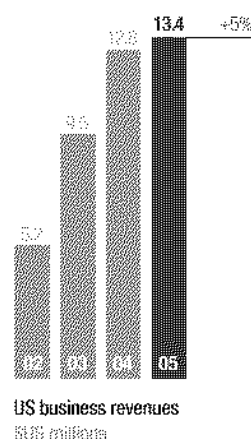
Revenue \$millions



EBITDA \$millions



NPAT \$millions



US business revenues
\$US millions

Revenue
guidance:

\$44M plus

Targeted R&D spending
as a percentage of
those revenues in 2006:

16%

What is the strategy for Compumedics over the next few years?

Compumedics' strategy is to continue to focus upon its core competency of sleep diagnostics.

We will then logically leverage this technology platform into new and growing associated fields such as brain research (Neuroscan), neurodiagnostics, Doppler ultrasound, supplies and cardiology.

Where the focus will change will be in regard to our intensity and resolve for high performance sales and marketing to match our technological prowess.

Why do you believe the strategy is correct?

The company was founded almost 18 years ago with only a few individuals involved. Today the Compumedics group does business in 3 continents and employs close to 160 staff.

We have built revenues from approximately \$9m in the 1998/1999 financial year, just prior to listing on the Australian Stock Exchange, to \$38m this year. We have an excellent product and technology pipeline founded around sleep diagnostics but that is significantly enhanced through the brain research technology acquired as part of the Neuroscan acquisition three years ago. This has been further enhanced in the current year with the blood-flow technology acquired as part of the DWL acquisition in September 2004.

The business must now demonstrate that it can turn consistent earnings from this pool of technologies and then consistent earnings growth.

What is the current USA business status and future outlook?

So far we have successfully developed our direct US-based business from a zero base 5 years ago to a business that this year achieved sales of approximately USD13m. As the business grows, new and different resources are needed to double and triple the size of the business going forward. The sales

and marketing organisation structure underwent significant changes over the past 6 to 12 months. These changes were designed to enable forward movement. Once again we have sacrificed popular short-term profits for long-term sustainable growth as reflected by our strengthened sales and marketing team.

Clearly having the right people in the right jobs is a critical first step in achieving our goals for the next phase of growth for the US business and it has taken 3 to 6 months to bring about the changes necessary that should see the US business return to, and maintain, its historical growth rates.

Our ambition is to be the number one supplier in the sleep-diagnostics market in the US. To do this we will need to triple our existing business. This will not be easy but with the right people it can be achieved. We believe the new structural and personnel changes position the company for accelerated USA sales growth moving forward.

As regards the Brain Research (Neuroscan) business, Compumedics is the number one supplier of choice in the USA and the challenge moving forward will be to maintain and build on that leadership in our existing markets, whilst creating new market opportunities.

On a final note, we are building our supplies and services businesses in the USA, which achieved growth rates over the previous year of 28% and 33%, respectively. This is a key focus for the US business as we aim to increase our recurring revenues on an annual basis from their current 11% of total revenues to at least 20% of total revenues over the next couple of years.

Your costs increased significantly this year. Why was that?

The cash expenses of the business did increase during the financial year. DWL acquisition and associated restructuring costs are reflected in this year's accounts. The costs contributed

Percentage of total revenue derived from
recurring supplies and service revenues

This year: **10%** Mid-term target: **20%**

\$1m in one-off expenditure. A further \$1m was also invested in new business growth areas including the ongoing establishment of products and services for the rapidly growing cardio-sleep market. In addition we have added resources to the US business to grow the DWL business in this key market. Those costs were an incremental \$0.4m, for which we will not see the full effect of incremental revenues until the current year. We have logically added sales resources for our existing clinical business which have cost an additional \$0.6m in the year. Each of these incremental costs will have a benefit to sales in the coming year.

The company will continue to maintain vigilance over its expenses and improve margins.

How is the European business developing?

Following the end of the financial year we formally terminated our distribution agreement with Dräger Medical and we have instigated arbitration proceedings against them for breach of contract. This move has freed the company to focus on regrowing the European business for the year ahead.

What is the outlook for the 2006 financial year?

While the company has relatively early stage-technology businesses, it is also evident that the franchise, branding associated with the name and also our unique technologies have created formidable barriers to competitive entry, as we continue to strengthen the company's outlook and ongoing growth prospects.

The focus will continue to be profitable growth. We have proven that we can deliver profitable results and now we must achieve this consistently through the year and then year-on-year.

As we announced, we anticipate sales to exceed \$44m in revenues for the 2006 financial year and we expect to operate

profitably for the year. Given the significant sales and marketing changes that have been implemented within the business we expect to see returns on these changes and we will provide the market with updates during the year.



David Burton
Executive Chairman and CEO

Number of 128 channel
brain research systems
installed in China

30

Making Compumedics
Neuroscan the No. 1 supplier
in this key growing market.

The Business of Compumedics

Description of the market:

Global Brain Research is the study of the brain's functionality, using Quantitative EEG (QEEG) methods to supplement traditional EEG findings. With the advent of high speed digital information processing and statistical analysis, QEEGs extract and quantify brain electrical activity to address aspects of EEGs that cannot be appreciated visually.

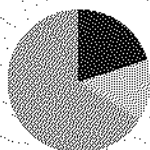
Current Market Share:

16%

In the next 12 months we expect to grow our share of the brain research market in Europe by 50%.

Where we compete:

- Asia 20%
- Europe 14%
- USA 58%
- Australia/NZ 8%
- (Total Sales)



Competitive Advantages:

- 1 Superior patented technology
- 2 Uncompromised system design
- 3 Unmatched innovation

Key drivers:

The key driver for growth in brain research will be to maintain Neuroscan's preeminent technological lead and to back this by expanding the sales and support infrastructure to harness this expanding market opportunity.

Compumedics is a global technology leader in the development and commercialisation of computer based medical products.

Our technology has so far focused on the fast growing, high value sleep medicine market. We are now also focusing on the associated fields of neurodiagnostics and brain research.

By defining life's signals, our technology turns vast amounts of data into valuable information that leads to more accurate diagnosis and consequently more effective therapy for some of the most serious health conditions.

We are an Australian based company with global operations and customers.

Global Brain
Research
market A\$:

\$70M

Global
Sleep Diagnostics
market A\$:

\$250M

Description of the market:

The global Sleep Diagnostics industry is comprised of diagnostic and therapeutic technologies and medicines. Compumedics' core business lies in the design and manufacture of technologies for the diagnosis of sleep disorders – a market estimated to be worth AUD\$250 million worldwide and growing.

Current Market Share:

7%

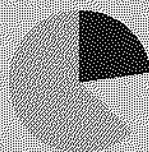
In the next 12 months we expect to grow our share of the sleep diagnostic market by 50%.

Competitive Advantages:

- 1 Innovative strength
- 2 Active involvement in sleep science globally
- 3 Market placement and momentum

Where we compete:

- Asia 23%
- Europe 14%
- USA 54%
- Australia/NZ 9%
- (Total Sales)



Key drivers:

To logically continue to expand our US and European sales and support infrastructure and to evolve the business to provide complete sleep medical solutions.

Doppler
Ultrasound
market A\$:

\$19M

Global Neuro-
diagnostics
market A\$:

\$890M

Global Neuro-
medical Supplies
market A\$:

\$260M

Description of the market:

The Doppler Sonography technique utilises sound frequencies to measure the blood flow conditions in vessels and evaluate haemodynamics by using high-quality diagnostic and monitoring systems.

DWL Doppler systems are used in a wide range of specialist branches of medicine including neurology, neurosurgery, cardio- and vascular surgery, anaesthesia, intensive treatment, internal medicine, angiology and radiology.

The products are purchased by private practices and clinics, hospitals (both public and private), and by major universities, national research institutes and corporate research laboratories around the world.

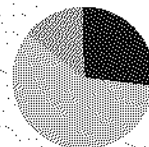
Current Market Share:

less than 35%

In the next 12 months we expect to grow our share of the Doppler diagnostics market by 15%.

Where we compete:

- Asia 27%
- Europe 59%
- USA 13%
- Australia/NZ 1%



Competitive Advantages:

- 1 Full Digital Doppler Technology
- 2 Bilateral Doppler
- 3 Multi-Range Doppler Technology
- 4 Physiological Tests
- 5 Emboli Differentiation and Multi-Frequency probes
- 6 Highest Doppler sensitivity
- 7 Best signal to noise ratio
- 8 Reference gates
- 9 High and low temperature endurance systems
- 10 Space endurance systems

Key drivers:

- Digital Doppler Technology
- New application areas for the use of TCD
- Expanding market opportunities by new Health Care Regulations for the use of TCD
- Expanding Sales and Support Infrastructure

Description of the market:

Global Neurodiagnostics is the study of electrical activity in the brain, spinal cord, nerves and muscles for the diagnosis and monitoring of neurological based diseases. Tests may be performed in hospital outpatient departments, neurophysiology labs, operating theatres, intensive care units and private practice.

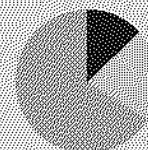
Current Market Share:

less than 1%

In the next 12 months we expect to grow our share of the neurodiagnostic market by 100%

Where we compete:

- Asia 13%
- Europe 21%
- USA 20%
- Australia/NZ 46%
(Total Sales)



Competitive Advantages:

- 1 Complete range from clinical to research technologies
- 2 Uncompromised system design
- 3 Highest industry quality standards

Key drivers:

The key drivers for achieving growth in this market are to have technologically superior products that differentiate Compumedics from the existing competition. With the current products being complemented by a completely new long-term monitoring device in 2005, this will be achieved.

Description of the market:

The Neuromedical Supplies market comprises sleep consumables, brain research consumables and neurodiagnostic consumables.

Typically, items sold in these markets comprise electrodes, sensors, head caps, gels, respiratory bands and the like. Items replacement cycles range from disposable to replacing once every six months.

Current Market Share:

1%

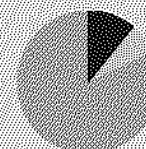
In the next 12 months we expect to grow our share of the neuro medical supplies market by 100%.

Competitive Advantages:

- 1 Existing installed base
- 2 Proprietary products
- 3 Growing distribution network

Where we compete:

- Asia 11%
- Europe 7%
- USA 51%
- Australia/NZ 31%



Key drivers:

The key drivers to growth in this market are marketing initiatives to increase our brand awareness followed by on time delivery and product quality and consistency.

Key Clients

- University of Melbourne (Aust)
- Flinders University (Aust)
- University of Queensland (Aust)
- University of Sydney (Aust)
- University of New Castle (Aust)
- Swinburne Centre for Applied Neuroscience (Aust)
- Starship Children's Hospital (New Zealand)
- University of California, Davis (USA)
- Pediatric Epilepsy Center (USA)
- Yale School of Medicine (USA)
- Kennedy Krieger (USA)
- National Institute on Alcohol Abuse & Alcoholism (USA)
- The Mayo Clinic (USA)
- Albert Einstein College of Medicine (USA)
- Harvard Medical School (USA)
- Harvard University (USA)
- Stanford University School of Medicine (USA)
- Oxford University (UK)
- Tokyo University (Japan)
- Kyoto University (Japan)
- Communications Research Laboratory (Japan)

Products Provided:

- SynAmps2™ – world's most powerful and advanced amplifier
- Scan™ data acquisition software
- Curry™ multi-modal neuroimaging software
- MagLink™ system for EEG recording in the fMRI environment
- Stim™ audio visual stimuli presentation software
- Source™ offers source localisation capabilities
- Electric Source Imaging™ system to measure and analyse EEG, EP and ERP signals



Compumedics is ranked
3rd in the fastest growing
Sleep market, the US
– worth approx:

\$155M_{p.a.}

"I have used Neuroscan amplifiers and software for the past 10 years and currently use Neuroscan SynAmps™, NuAmps™ and SynAmps2™ amplifiers, Compumedics E-series™ hardware, Scan™, Stim™ and Profusion™ software packages and the Neuroscan MagLink™ system in several NIH funded sleep research projects. As a sleep researcher, I am excited about the future prospects of Compumedics combining the talent and expertise of its Neuroscan and Sleep divisions to produce what will undoubtedly become the new gold standard technology for sleep research."

Dr. Ian Colrain established the Human Sleep Research Program at SRI in Menlo Park, California in late 2001. Prior to this, Dr. Colrain was the Clinical Senior Research Scientist at Stanford's Sleep Disorders Clinic. Dr. Colrain is also Principal Fellow and Associate Professor in the Department of Psychology at the University of Melbourne.



Key Clients

- Austin Repatriation & General Hospital (Aust)
- Monash Medical Centre (Aust)
- Royal Prince Alfred Hospital (Aust)
- Sir Charles Gairdner Hospital (Aust)
- Royal Children's Hospital (Aust)
- Royal Edinburgh Infirmary (UK)
- University of California in San Diego (US)
- Hennepin County Hospital (USA)
- University of Florida, Shands Hospital (USA)
- Redmond County Hospital (USA)
- NASA (USA)
- US National Institute of Health – Sleep Heart Health Study (USA)

Clients of

Brain
Research

#1

GLOBAL MARKET
POSITION

Sleep
Diagnostics

#1

IN AUST

#3

IN USA

MARKET POSITION

Products provided

- Siesta™ PSG – the ultimate in wireless Sleep recording systems
- Somté™ – unique hoister style cardio-respiratory system
- E-Series™ EEG/PSG – network ready laboratory and portable Sleep system
- Safiro™ PSG – ideal for ambulatory applications in sleep
- P-Series™ – portable sleep recorder used by NASA and Sleep Heart Health Study
- S-Series™ – the original sleep recording system

Compumedics

DWL

#1

EUROPEAN MARKET

Neuro
Diagnostics

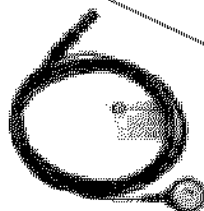
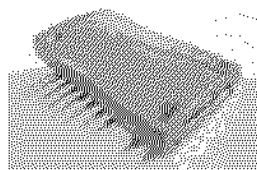
GLOBAL MARKET
POSITION BEING BUILT

Neuro
Medical
Supplies

GLOBAL MARKET
POSITION BEING BUILT

Exciting opportunities
exist in the massive Neuro-
diagnostics market worth:

\$890M_{p.a.}



Key Clients

- Dr. Rune Aaslid, PhD, Berne, Switzerland
- Prof. Andrei V. Alexandrov, MD, University of Texas, Houston, USA
- Prof. David Russell, MD, PhD, The National Hospital Oslo, Norway
- Dr. David W. Newell, MD, University of Washington, Seattle, USA
- Prof. Geoffrey Donnan, MD, Austin & Repatriation Medical Center, Melbourne, Australia
- Prof. Laszlo Cziba, MD, Medical School of Debrecen, Hungary
- Prof. Erich B. Ringelstein, MD, University of Munster, Germany
- Prof. Michael G. Hennerici, MD, University of Mannheim, Germany

Products Provided

- Doppler-Box: Digital Doppler device including Doppler M-Mode
- EZ-Dop®: Very compact and portable Doppler device for routine diagnostics
- Multi-Dop® T Series: Portable Doppler device with upgradeable bilateral monitoring
- Multi-Dop® X Series: All around Doppler device with emboli detection
- Embo-Dop®: Doppler device for emboli differentiation
- Hemo-Dop®: Doppler device with Doppler guided haemorrhoid arterial ligation technique (DG-HAL)

Key Clients

- Flinders Medical Centre (Aust)
- Austin Repatriation & General Hospital (Aust)
- St. Vincent's Hospital (Aust)
- Royal Children's Hospital (Aust)
- Royal Brisbane Hospital (Aust)
- Royal Perth Hospital (Aust)
- Princess Margaret Hospital (Aust)
- Royal North Shore Hospital (Aust)

Products Provided

- E-Series EEG - network-ready laboratory and portable EEG solution
- Safiro EEG - a perfect solution for ambulatory applications
- Siesta EEG - the ultimate in wireless capabilities in EEG

Key Clients

- Winmar Diagnostics (USA)
- Maine Medical Center (USA)
- Providence Medical Center (USA)
- Landauer Medical (USA)

Products provided

Our comprehensive range of products produced for this market are:

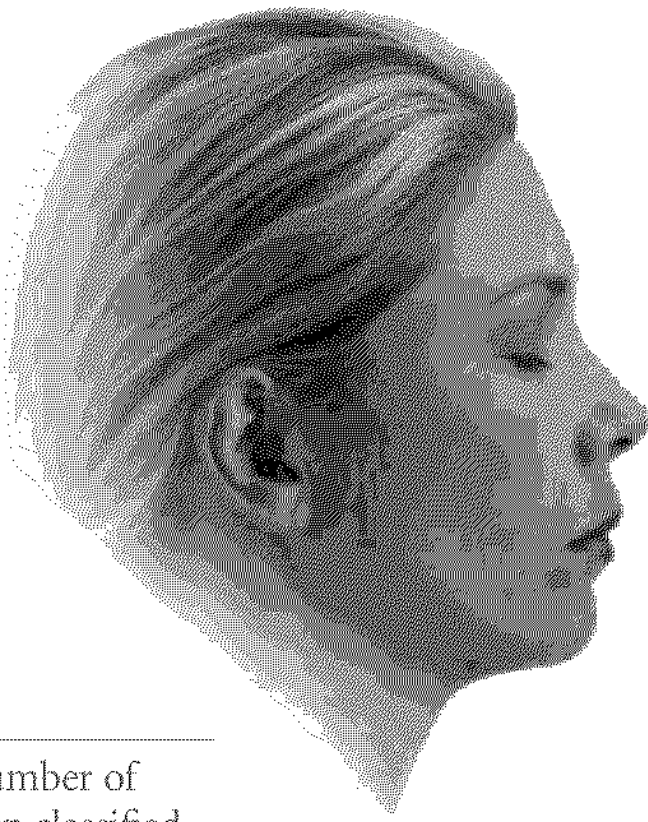
- Airflow Sensor
- Electrodes
- Leads
- Chest Sensor
- EMG Needles
- Snoring Monitor

Clinical Sleep Diagnostics:

Discovering, developing, and delivering new technologies that are dramatically improving people's lives.

"Compumedics provides us with unrivaled flexibility and power in its PSG acquisition, scoring and reporting systems. The sales and service staff are second to none in customer satisfaction and are just as reliable as their equipment. I just hope that our competition doesn't catch on!"

Luis A. Garcia, RPSGT
Clinical Director LMI Sleep Diagnostics Division
Landauer Metropolitan Homecare



Number of
known classified
sleep disorders:

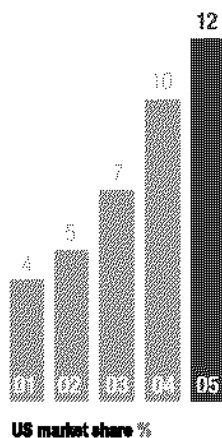
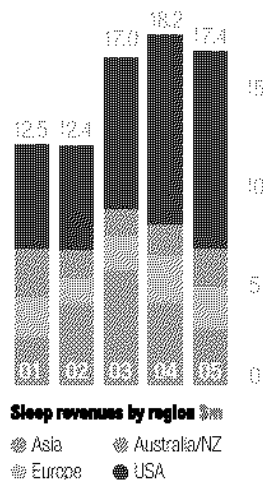
85

What is a Sleep Disorder?

A sleep disorder is a medical condition that affects a person's ability to have a 'normal' night's sleep. There are 85 classified sleep disorders ranging from snoring, obstructive sleep apnoea and insomnia to narcolepsy. Identified in 1966, obstructive sleep apnoea (OSA) is the most common form of sleep disorder and is a serious and potentially life threatening condition. Of the estimated 40 million Americans believed to suffer from treatable sleep disorders it is thought that 50% suffer from OSA.

How are Sleep Disorders Diagnosed?

General practitioners will refer patients who suffer from a variety of sleep-related symptoms (severe snoring, daytime tiredness, general fatigue and poor sleep patterns) to sleep physicians or respiratory physicians. At the specialist's recommendation, the patient may need to undertake a sleep study either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. In home studies the patient is connected to a portable sleep diagnosis device prior to sleep. For 8 to 10 hours, breathing patterns, leg movements, eye

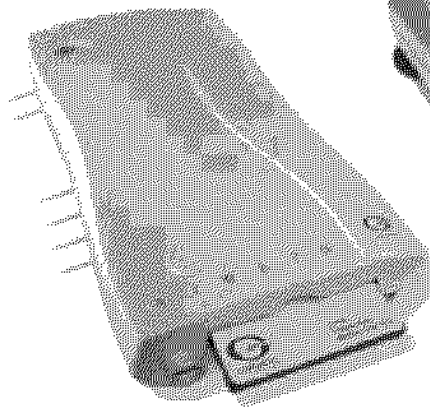


movements, patient position and responses to light, sound and temperature are monitored using ECG, EEG, EMG, SaO₂, TcCO₂ and CPAP (a Continuous Positive Air Pressure device). High-resolution monitors display on-line and off-line physiological waveforms as well as trend analysis data.

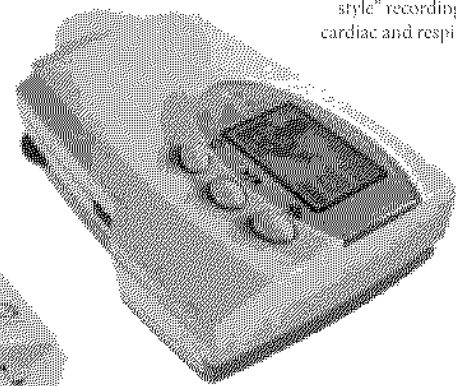
How Common are Sleep Disorders?

Sleep disorders are estimated to affect approximately 40 million Americans. In 1993, the National Commission on Sleep Disorders Research estimated that approximately 20 million individuals in the USA suffer from OSA. Of this 20 million, more than 30% (6.5 million) over the age of 30 suffer moderate to severe OSA. However, only a small proportion of OSA sufferers were aware of the cause of their sleep problems.

Siesta™ – The most compact wireless system incorporates true WiFi technology in the sleep and EEG laboratory



Somniti™ – A compact investigative tool for "holier-style" recording of both cardiac and respiratory data



This rate of occurrence ranks sleep disorders as more prevalent than asthma in the USA. Sleep disorders remain a relatively new area of medicine and due to the lack of awareness, a large percentage of sufferers are currently undiagnosed.

Certain segments of the population appear to be at more risk of developing sleep disorders. Typical sufferers are middle-aged males, with a history of severe snoring. There are also certain risk factors that increase the chance of developing sleep disorders including:

- Obesity
- Ageing
- Genetic predisposition
- Smoking
- Alcohol consumption

Many of these risk factors reflect the characteristics of modern society. It is anticipated that these risk factors, combined with the increasing awareness of sleep disorders within the medical community, will continue to generate substantial growth in the sleep device market.

Links to Other Diseases

Sleep disordered breathing is more common in people with high blood pressure, heart disease, diabetes, stroke and a number of other common medical conditions. It is thought that the lowering of blood oxygen during sleep and the frequent apnoeic episodes contribute to

vascular, heart and brain dysfunction (such as stroke and memory impairment) for people with these medical conditions. Sleep disordered breathing is also more common in people with spinal cord injury and may contribute to daytime dysfunction and excessive sleepiness in this group. There is also a newly discovered link between sleep disordered breathing and pre-eclampsia in pregnancy and it may be that upper airway obstruction disrupting sleep leads to the high blood pressure in this condition.

As the understanding of the links between sleep quality and normal function across the whole range of body systems increases, new and valuable insights into the cause of many common diseases, and the potential role for improving breathing and sleep quality in the treatment of those conditions will be gained.

Impaired and disturbed sleep quality has an enormous impact on psychological function, mood, memory and general cognitive performance. This has led to increased awareness of the importance of good sleep quality in prevention of industrial and motor vehicle accidents and absenteeism in the work place. Clearly, strategies to improve and promote sleep health in the community are of considerable socio-economic importance in creating a healthy society.

Clinical Neurodiagnostics:

Continue to expand our neurological diagnostic business in the USA off of the successful development of the business in Australia.

"As Compumedics users of some five years standing, we have been consistently impressed by the reliability and ease of use of our systems. Staffing changes and budget restraints have challenged us in many ways but we have not experienced any downtime and have been able to carry out "on the job" training with great success.

Debra Anderson R.EEG T. Shands Hospital
University of Florida, Gainesville



Number of sites with
Neuro installed in
Australia & NZ:

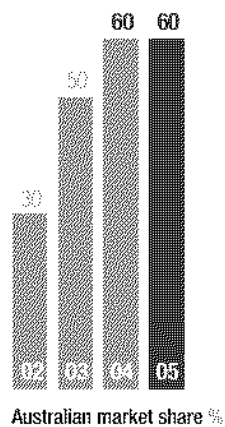
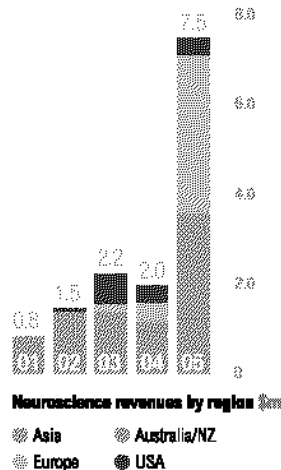
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What is clinical Neurodiagnostics?

It is the study of electrical activity in the brain and spinal cord for the diagnosis of neurological-based disorders. The methods used to study clinical neurophysiology include Electroencephalography (EEG), Electromyography (EMG), Nerve Conduction (NCS), and Evoked Potentials (EP). These tests may be performed in hospital outpatient departments, neurophysiology labs, operating theatres, intensive care units, epilepsy centers and private practice offices.

EEG is used in the evaluation, monitoring, diagnosis, and/or management of the following brain related issues: Epilepsy, Traumatic Brain Injury, Infarction, and Intracerebral Hemorrhage as well as a host of research purposes.

EEG is an important growth area and part of the "journey" for Compumedics: EEG is the largest segment of the world market for Neurodiagnostics. In 2002 the world market for EEG devices alone, was estimated at USD 46m and this is expected to grow to approximately USD 90m in 2010.



The primary markets for these devices are Europe and America with approximately 40% of the world market. However, Asia Pacific and Latin American markets are also expected to grow at a strong rate over the next 10 years.

EEG is inexpensive and non-invasive. It is virtually pain and risk free and is one of the most benign tests for monitoring brain function in the evaluation of epilepsy.

Growth in neurodiagnostics is being driven by the prevalence of reliable technology and performance requirements of the EEG as a clinical instrument in surgical therapy, known as Intraoperative Monitoring (IOM), and for extended epilepsy monitoring or Long Term Monitoring (LTM).

Epilepsy is a chronic neurological disorder that affects 1% of the world population. Most of the health care costs associated with epilepsy are attributable to those patients with medically intractable seizures. Many of those disabled by epilepsy may be candidates for surgical therapy. Note: in 2003 there were an estimated 100,000 – 200,000 potential surgical candidates in the USA alone. Early and successful surgical intervention might prevent or reverse disabling consequences of uncontrolled seizures during critical periods of adolescence and adulthood

Continuous EEG monitoring in the Intensive care arena also demonstrates excellent utilisation and potential for expansion in EEG testing. EEG is now utilised, not only for surgical therapy but also for detection of seizures in traumatic brain injuries, infarction and intracerebral hemorrhage. Sub-clinical seizures occur frequently after traumatic brain injury. If one does not monitor for seizures, one may not know they are occurring. In addition, people are experimenting with better methods to record EEG in emergency rooms and even in emergency transport vehicles. Such monitoring concentrates on prevention and early intervention to avoid the likelihood of far more serious clinical events.

Another growth sector is the demand for better patient outcomes by enabling recording in a “natural environment”. Ambulatory EEG gives a patient the freedom to leave the artificial environment of a hospital, to go anywhere and maintain a relatively normal school or work day schedule. This type of recording improves the opportunity for a quicker and more accurate diagnosis resulting in a positive impact on quality of health care.

Compumedics is keenly in tune with the technical need for more flexible, productive and simpler EEG devices. As a world supplier in the EEG market, we have developed unique solutions that are automated, ambulatory and wireless. More importantly we focus on value-added services like remote access, networking and lab management products that are easily

integrated with the equipment in order to maximise productivity and minimise costs.

EEG is a cost-effective, well respected and proven clinical Neurodiagnostics tool and the predicted growth for these products is expected to continue. Compumedics is positioned with the right mix of products, services and tools to capitalise on this area of growth.

Compumedics is a leader in addressing pressing market needs in Neurodiagnostics.

Compumedics Neuroscience competitive Advantages include:

- 1) A wide product range from basic clinical to advanced research methodologies
Through the Neuroscan acquisition techniques developed for research applications are now being integrated into the clinical field. This solidifies Compumedics' commitment and reputation as a world-class developer of clinical neurodiagnostic systems.
- 2) Complete vertical integration of all operations.
Compumedics has integrated research, development, engineering and manufacturing and service in all facets of our business. This provides customers with a complete solution while allowing Compumedics to keep intense attention to detail and provide rapid change to ensure a quality product that continually exceeds market requirements.
- 3) Strong collaborative links
Strong collaborative links through extensive involvement in Neuroscience research activities with major teaching hospitals and Universities have enabled Compumedics to develop practical, state-of-the-art clinical Neurodiagnostics systems and solutions.

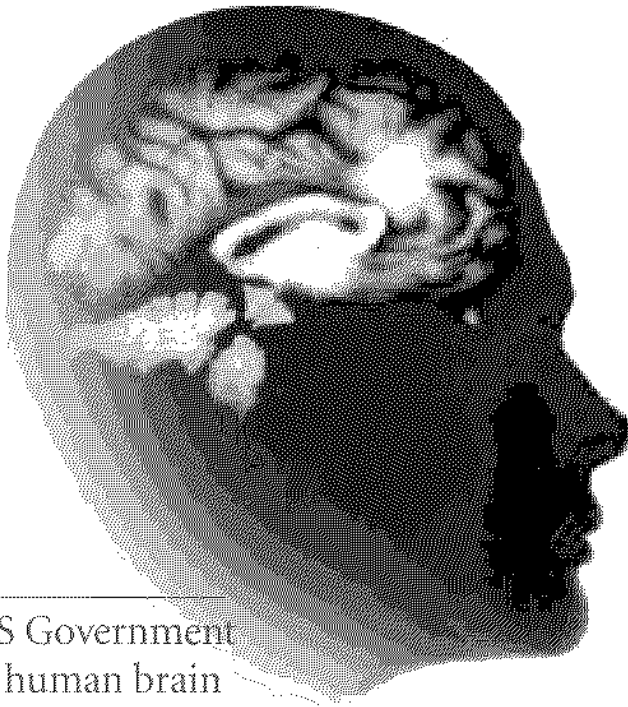
Neuroscan: Brain Research

Release innovative products to capitalise on opportunities and maintain leadership in all key markets.

“ We have been using a 64 Channel Neuroscan EEG/ERP system for research for over six years now. It has continuously demonstrated such unique and reliable qualities, that we have recently purchased a second system.

Within the Centre of Neuropsychology, these versatile systems are used as our principal brain function imaging tools for research into the biological basis of personality, clinical disorders, intelligence, the effects of mobile phones, the effects of illicit substances and normal cognitive neuroscience. As an EEG researcher, it is my opinion that the hardware, analysis & imaging software associated with these products not only surpasses industry standards, but are very flexible and user friendly as well. As important and reliable as this technology is, the steadfast support from Compumedics has been unequalled.”

Dr. Joseph Giordani, Psychophysiology Coordinator
Biomedical Sciences and Psychophysiology Lecturer
Basic & Clinical Psychophysiology Research Unit
Leader Centre for Neuropsychology School of
Biophysical Sciences and Electrical Engineering
Swinburne University of Technology

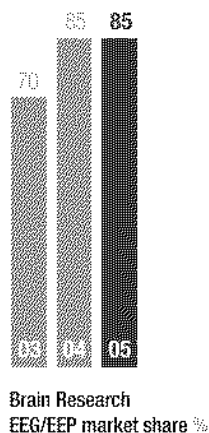
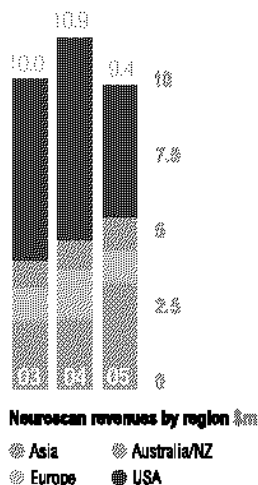


Estimated US Government
funding for human brain
interface technologies over the
next several years:

US\$5 BILLION

What is brain research?

Brain research is the study of the brain's functionality, using quantitative measures of EEG to supplement traditional EEG findings. With the advent of high speed digital information processing and statistical analysis, extracting quantitative measures of EEG to assess the status of brain function allows access to aspects of EEGs that cannot be appreciated visually. Theoretically, such techniques incorporated the heuristics of visual analysis of EEG but move it to a state of processing beyond “the eye of the beholder”. There are a variety of quantitative analysis techniques ranging from simple surface mapping of recorded EEG activity, to complex models that accurately define the source of these electrical activations in a three dimensional model of the head. Advanced brain source reconstruction techniques highlight regions of interest to the neuroscientist in understanding brain function and may assist in clinical diagnosis and treatment planning of some medical conditions.



Why is this important to Compumedics?

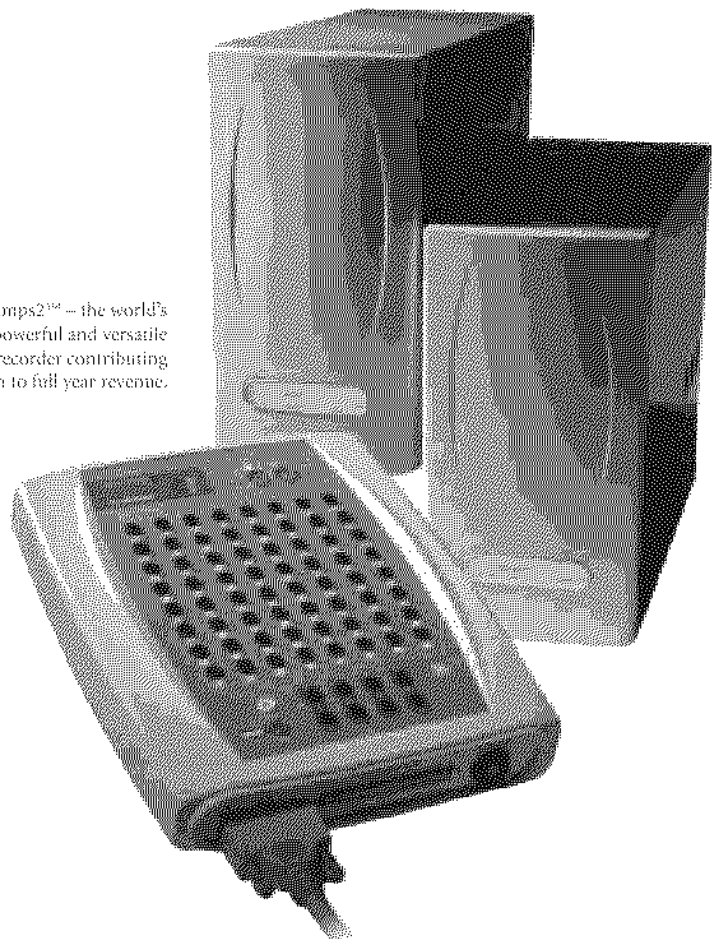
Leadership in objective and quantitative methods of EEG analysis and other brain research activities is important not only in terms of maintaining Neuroscan's pre-eminent position in this market and therefore its dominant market share, but to also lead the sleep and neurodiagnostic business technologies into the future. The Neuroscan Brain Research business is focused on working with key academics and researchers around the world in the pursuit of new neurophysiology research tools that have the potential to open up new clinical diagnostic solutions for known neurological disorders. The Neuroscan Brain Research business works with key researchers and industry leaders who write the research articles that form the basis of knowledge for neurodiagnostic clinical practices for the next 10-15 years.

The majority of these key decision makers use Compumedics Neuroscan products.

Or to put it practically, more than 1,400 physiological research laboratories across the world use Compumedics Neuroscan brain research products. These laboratories include prestigious laboratories such as: Albert Einstein College of Medicine (USA)– Stanford University School of Medicine (USA)– Oxford University (UK)– The Mayo Clinic (USA)– Yale School of Medicine (USA)– University of Melbourne (Aust)– Tokyo University (Japan)– University of Sydney (Aust). It is these research institutes that will drive clinical practices in the future, all using Compumedics Neuroscan equipment in their investigations. This gives our neurodiagnostic business a significant competitive advantage and will ensure the neurodiagnostic functionality in our sleep diagnostics also remains leading edge.

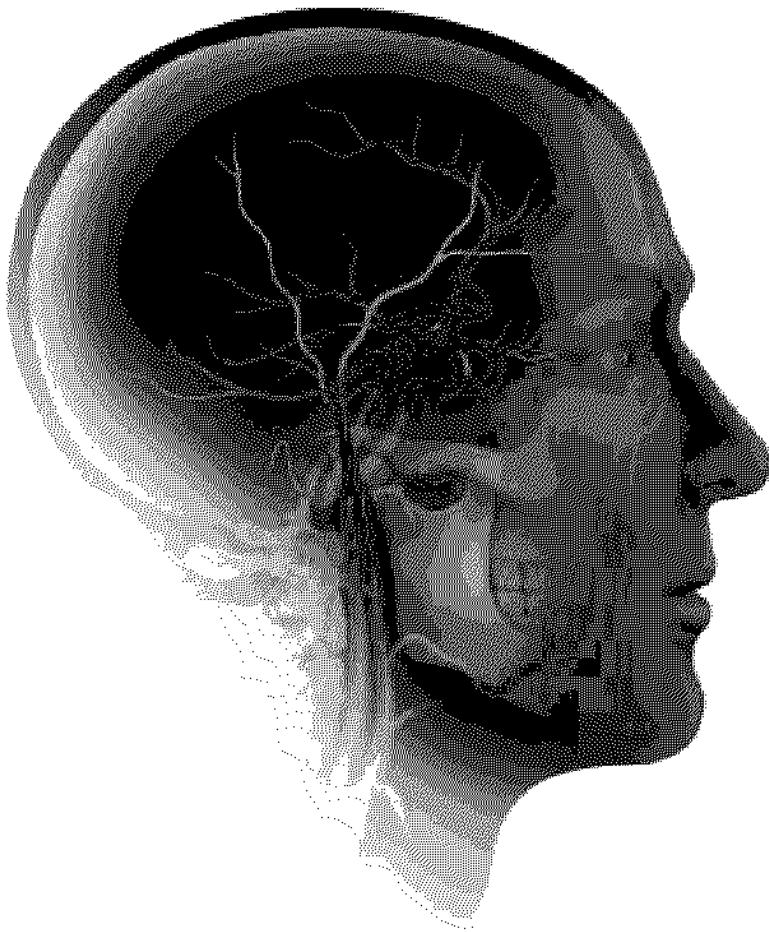
Compumedics Neuroscan Competitive Advantages include: (1) Superior Patented Technology. Being one of the first providers of designer solutions for the research market, Compumedics Neuroscan is able to provide a single-provider solution, allowing integration and scalability ensuring the greatest flexibility and upgrade potential, (2) Uncompromised system design with decades of experience; the R&D and Engineering teams have approached the system design of the software and hardware with scientific precision. The combination of advanced hardware and software sets the standard to which all other systems on the market are compared (3) The highest industry quality standards. Compumedics Neuroscan has established quality systems to enable ongoing improvements and brain research instrument leadership. This level of certification can only be obtained by careful consideration in the design and engineering process and with reliable manufacturing methods.

SynAmps2™ – the world's most powerful and versatile physiological recorder contributing \$8m to full year revenue.



DWL: Doppler Sonography

To grow the business by innovations and developments in technology and products and by capitalising on opportunities in application fields for practicable routine Doppler Sonography, Neuro-monitoring and Neuro-protection.

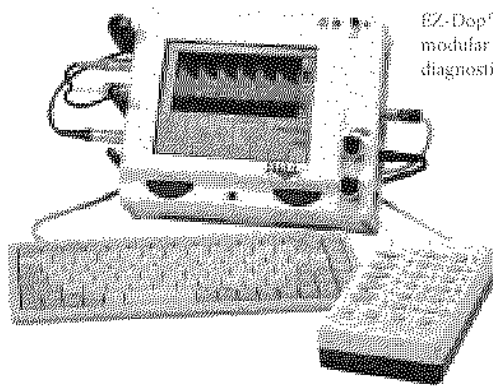


What is Doppler Sonography?

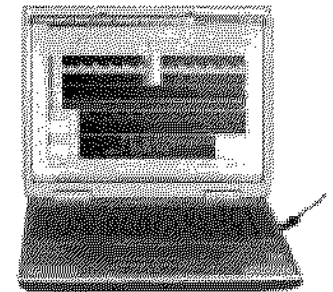
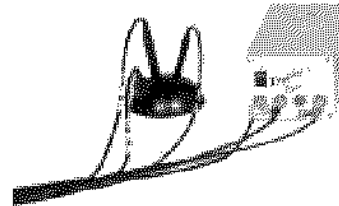
The Doppler Sonography technique utilises sound frequencies to measure the blood flow conditions in vessels and evaluate haemodynamics by using high-quality diagnostic and monitoring systems.

Transcranial (1 and 2 MHz), **extracranial** (4 and 8 MHz), **peripheral** (4 and 8 MHz) and **microvascular** (16 MHz) arteries and veins, as well as **gastro-enterological** examinations can be carried out using DWL Doppler systems in either **continuous wave** (cw) or **pulsed wave** (pw) modes.

In cw mode, one frequency is continuously transmitted and received, in pw mode the probe emits pulses of ultrasound and receives the reflected signals in between, thus a depth selection is possible. Transcranial Doppler sonography is not possible without depth selection.



EZ-Dop™ – Compact, portable and modular Doppler device for routine diagnostics



Doppler Box™ – Digital Doppler device including Doppler M-Mode.

Different kinds of Doppler Sonography

Transcranial Doppler Sonography

... is carried out using 1 or 2 MHz probes in pw mode only. The arteries of the circle of willis and the A. basilaris are examined.

Extracranial Doppler Sonography

Using the 8 MHz probe, the artery to the eye (A. supratrochlearis) is examined. All other brain supplying arteries are typically examined using the 4 MHz probe.

Peripheral Doppler Sonography

The arteries and veins of the pelvis and upper thighs are examined using the 4 MHz probe.

In other peripheral areas the 8 MHz probe is normally used according to the constitution of the patient.

Microvascular Doppler Sonography

... is carried out using a 16 MHz probe. The neuro or vascular surgeon places the probe directly onto the exposed blood vessel and measures its blood flow. The ability to sterilise the probes is very important in these cases.

Doppler Sonography Diagnostic/Application

Routine examinations are carried out to diagnose ...

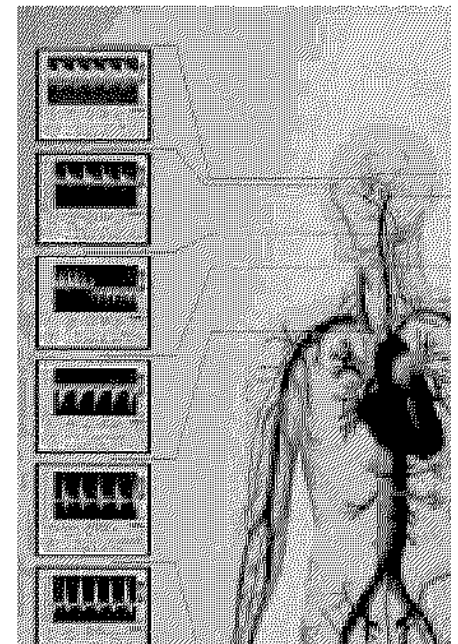
- * cerebral and peripheral circulatory problems
- * cerebral and peripheral vessel stenosis and occlusions
- * extracranial and intracranial aneurysms
- * inflammatory vessel diseases e.g. vasospasms
- * vascular diseases e.g. varicosis, thrombophlebitis

or to perform

- * functional tests of the cerebral hemodynamics
- * pre-operative determination of risks
- * diagnosis of brain death, prognoses for skull-brain trauma
- * post operative control examinations e.g. after carotid operations
- * intra-operative examinations in vessel surgery
- * differential diagnoses in urology

Doppler monitoring examinations for

- * Doppler functional tests e.g. orthostasis
 - dynamic autoregulation
 - tipper table examinations
 - CO₂ – reactivity
 - visual stimulation
 - cognitive stimulation
 - emboli detection



- * Monitoring during surgery
 - vessel surgery
 - reconstructions of aorta arch
 - organ transplantations
- * Monitoring in intensive care units
 - vasospasms after sub-arachnoidal bleedings
 - after skull-brain trauma
 - hydrocephalus and meningitis
 - monitoring in stroke units e.g. indication to use Lyse and control during application of Lysing drugs.

NeuroMedical Supplies:

Expand this business segment into a leading provider of a comprehensive range of consumable items to serve not only our installed customer base but the entire sleep and neuro industry.



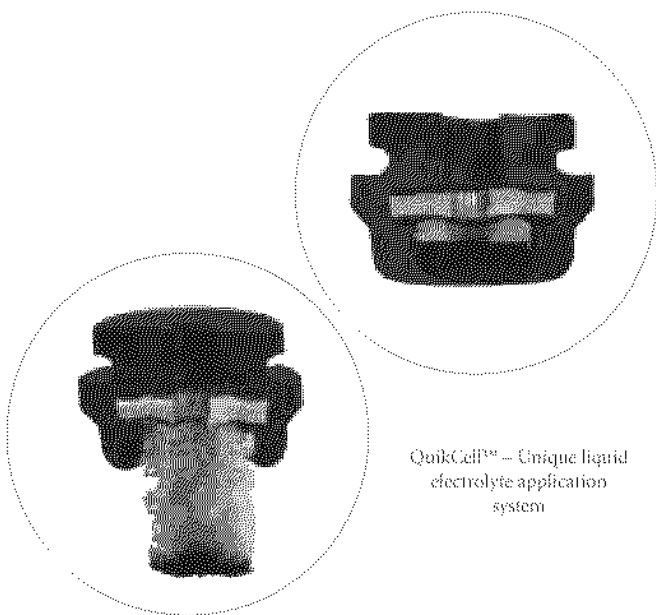
What is NeuroMedical Supplies?

NeuroMedical supplies is a leading manufacturer and full-range distributor of supplies and accessories for Sleep and Neurodiagnostic laboratories, research facilities and transcranial Doppler professionals .

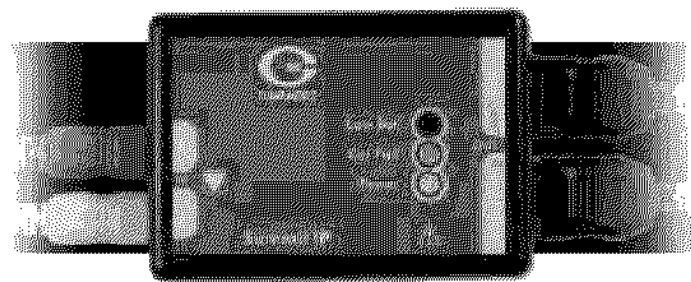
As innovators in our field, we understand how vital accessories, sensors and disposable items are in the diagnosis and study of sleep, the nervous system and the brain. Through our intimate

Installed
Compumedics/
Neuroscan/DWL
sites in the USA

over
2,000



QuikCell™ – Unique liquid electrolyte application system



Summit IP™ – Respiratory effort sensor system using true inductive plethysmography

understanding of this area, we manufacture and procure supplies and accessories that complement our system standards and are of the highest quality. Our goal is to be a single provider for every conceivable customer need.

NeuroMedical supplies endeavors to provide our clients with competitively priced supplies and accessories for all of their sleep and neurodiagnostic needs.

We are constantly expanding our product offerings and looking for creative and effective ways to enhance customers' purchasing experience with our company. Just in time delivery, annual contract purchase discounts and per-patient customised pricing bundles are a few of the initiatives we pursue to enhance our clients productivity while minimising their costs.

In addition to seeking out and selecting the best available supplier-partners, Compumedics designs and manufactures its own line of products from our 6000 sqm facility in Melbourne, Australia. Our operations and products are regularly audited for FDA, CE, ISO and ETL standards, to ensure that our customers receive consistent world-class products and services.

US Market for
Neuromedical
supplies:

\$130M



Number of beds installed
with Compumedics sleep
equipment in the USA:

1,400

Board of Directors:

Compumedics is committed to developing a world class working environment that rewards individuals for the contributions they, and their teams, make to the business each year. Compumedics is proud of the diversity of its people, and continues to develop its people infrastructure under the guidance of the Senior Management Team and the Board.



Mr David Burton

Executive Chairman, CEO

Mr Burton, 46, is the founder, Chairman and CEO of Compumedics. Established in 1987, and under Mr. Burton's leadership, Compumedics was listed on the ASX in 2000, and has been awarded 24 awards for design, innovation, business and exports including the Australian Exporter of the Year in 1998 and Small Business of the Year in 1999.

Mr. Burton has an Associate Diploma in Electronics from the Royal Melbourne Institute of Technology, and is currently completing a PhD (Eng. Sc.) in the area of medical technology innovation at Monash University. With a background in engineering, which includes the design and project management of Compumedics' first laboratory and portable sleep systems, Mr Burton has authored fourteen patents or patent applications that form part of Compumedics' key intellectual property.

Mr. Burton is a former member of the Council for Knowledge, Innovation, Science and Engineering (KISE) – being the Victorian Government's key advisory body on issues and policies focusing on science and innovation.

Mr. Burton was presented the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology. He was awarded the 2003 Centenary Medal by the Prime Minister and Governor General of Australia for outstanding contribution to science and technology, particularly public science policy. In 2003, Mr Burton was awarded the Ernst & Young Victorian Entrepreneur of the Year award for technology, communications, E-commerce and life sciences.



Mr Koichiro Koike

Non-Executive Director

Mr Koike, 48, worked for Compumedics as an export market development adviser from 1992 to 1998, during which time he secured substantial funding from Teijin Limited for the development of P-Series products. This subsequently led to Teijin being appointed as Compumedics' exclusive distributor in Japan. Still a Japanese national, he has been a permanent resident in Australia since 1990.



Professor Graham Mitchell AO
Non-Executive Director

Professor Mitchell, 64, is recognised as one of Australia's leading biological scientists. His expertise extends over a wide range of science and technology fields. He has a detailed knowledge of the academia and industry interface, has authored more than 350 publications, and received numerous awards for scientific achievement. In 1993, Professor Mitchell was appointed an Officer of the Order of Australia for services to science, in particular immunoparasitology. Professor Mitchell is a principal of Foursight Associates Pty Ltd., and Non-Executive Director of Antisense Therapeutics Limited, the Geoffrey Gardner Dairy Foundation and AVS Pty Ltd. He acts as a principal adviser to the Victorian Government through the Council for Knowledge, Innovation, Science and Engineering. He is joint Chief Scientist for the Department of Primary Industries. He is also a member of the World Health Organisation committee for special programs in tropical diseases.



Mr Alan Anderson
Non-Executive Director

Mr Anderson, 49, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented Compumedics for all legal matters in the USA since late 1998.

Mr Anderson completed his Bachelor of Arts with Honours (Political Science) at Coe College. He also holds a Master of Business Administration with Distinction, a Doctor in Law with Honours from Cornell University, and a Certificate in International Business and Commercial Law from the McGeorge School of Law (University of the Pacific).



Mr Bruce Rathie
Non-Executive Director

Bruce Rathie, 49, is currently the National Executive Director of the Australian Institute of Management and holds degrees in law, commerce and business. Bruce is a Fellow of both the Australian Institute of Company Directors and Australian Institute of Management. He holds Diplomas from the AICD and from Chartered Secretaries Australia. He has considerable experience as a lawyer having practised as a solicitor and partner in a major Brisbane based legal firm and then as Senior in House Counsel to Bell Resources Limited collectively from 1980 through to 1985. He studied his MBA in Geneva and then went into investment banking in 1986 which subsequently took him to New York for 3 years returning to Sydney in 1990. He spent the '90's in investment banking in Sydney, the last 5 years of which as a Director of Investment Banking at Salomon Brothers/ Salomon Smith Barney where he was responsible for the firm's activities/ roles in the industrial sector and the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1).

He has been in business since 2000 and currently is, in addition to the AIM role mentioned above and his non executive Director role at Compumedics, Chairman of PolyNovo Biomaterials Pty Ltd, a joint venture between CSIRO and the listed Xceed Biotechnology Limited and Chairman of UnitingCare Aging NSW & ACT one of the largest aged care service providers in NSW.

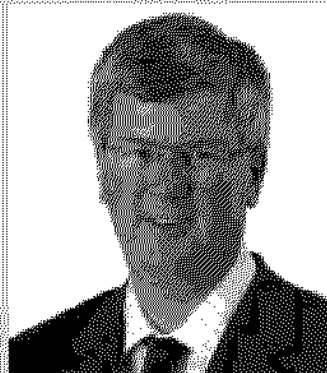
Senior Management:



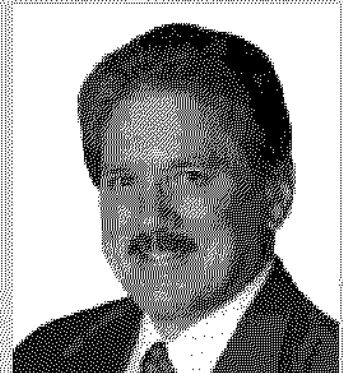
David Burton
Executive Chairman, CEO



David Lawson
Chief Financial Officer
& Company Secretary



Warwick Freeman
Chief Technology Officer



David Viele
General Manager Americas



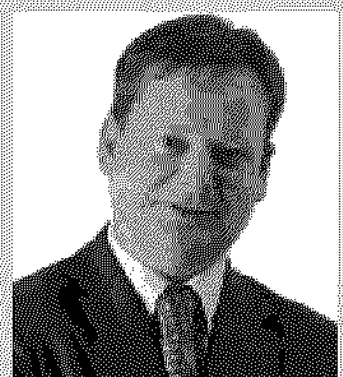
Anthony Curro
Vice President – Sales, Americas



Tom Lorick
Vice President, Marketing Americas



Christoph Witte
General Managing Director
DWL Compumedics Germany GmbH



Paul Spooner
Business-Director EMEA



Koichiro Koike
Chief Representative
Compumedics Tokyo Office
Non Executive Director



Andrew Kegele
Business-Director, Australia
and New Zealand



Tim Gresham
Business-Director, Asia and
South American

Medical Advisory Board:

When Compumedics was established as a public company in December 2000, the Company set up a Medical Advisory Board (MAB) to assist in evaluating new product developments and trends in the medical diagnosis industry.

The Medical Advisory Board meets twice a year with members of Compumedics senior sales, marketing and R&D teams to advise the Company on trends in sleep disorder technology and the associated fields of cardiology and neurology. Members of the Medical Advisory Board also consult with senior members of the Company on an as needs basis.

Members of the Medical Advisory Board are international leading medical practitioners and researchers from the sleep, respiratory and cardiology areas and include:



Professor Jack Clausen

B.Sc., M.D.

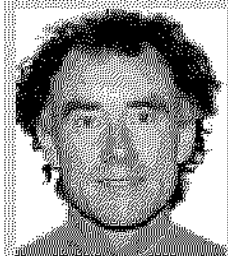
Chairman

Prof. Clausen has over two decades of experience in developing national and international standards for medical instrumentation. In addition to his clinical activities, he has been a collaborator in multi-disciplinary

research projects involving disorders of respiration during sleep, pulmonary physiology, cardiology, anaesthesiology, emergency medicine and radiology.

Prof. Clausen is currently Director, Pulmonary Function, ABG, Exercise and Sleep Disorders Laboratories, Division of Pulmonary and Critical Care Medicine, University of California at San Diego

Medical Center, San Diego, California USA. He is also Clinical Professor of Medicine, University of California at San Diego, USA.



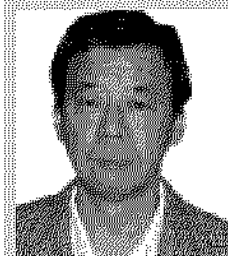
Professor Rob Pierce

M.B.B.S., M.R.A.C.P., FRACP, M.D., FRCGP

Prof. Pierce is an experienced researcher who has a long standing interest in respiratory and sleep physiology and medicine.

Prof. Pierce is a Director of Thoracic Services, Austin & Repatriation Medical

Centre, Studley Road, Heidelberg, Australia and a Prof. of Respiratory Medicine, The University of Melbourne, Parkville, Victoria, Australia.



Dr. Yuji Takasaki,

B.Sc., M.D.

In addition to a broad background in pulmonary diseases, Dr. Takasaki has been a leader in Japan regarding disorders of respiration during sleep for almost two decades. In 1993 he supervised the establishment of the

Sleep-Related Respiratory Disorders Centre at Tokai University, one of the first specialised sleep laboratories in Japan.

Dr. Takasaki is Associate Professor at Nippon Medical School, Japan.



David Burton

Mr Burton, is the founder, Chairman and CEO of Compumedics.

Mr. Burton has an Associate Diploma in Electronics from the Royal Melbourne Institute of Technology, and is currently completing a PhD (Eng. Sc.) in the area of medical technology innovation at Monash University.

Mr. Burton is a former member of the Council for Knowledge, Innovation, Science and Engineering (KISE) – being the Victorian Government's key advisory body on issues and policies focusing on science and innovation.

Mr. Burton was presented the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology.

He was awarded the 2003 Centenary Medal by the Prime Minister and Governor General of Australia for outstanding contribution to science and technology. In 2003, Mr Burton was awarded the Ernst & Young Victorian Entrepreneur of the Year award for technology, communications, E-commerce and life sciences.

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2005 Financial Statements

Directors' Report

Your Directors present their report on the consolidated entity consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005.

DIRECTORS

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

- David Burton
- Koichiro Kolke
- Alan Anderson
- Prof. Graham Mitchell

The following Director joined the company during the financial year:

- Bruce Rathie

Mr. John Dyson was a Director from the beginning of the financial year through to his retirement at the Annual General Meeting on October 21, 2004. Mr. Bruce Rathie was appointed a Director at the Annual General Meeting on October 21, 2004 and continues in office at the date of this report.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity were the development, manufacture and distribution of medical diagnostic equipment.

DIVIDENDS – COMPUMEDICS LIMITED

The Directors have not declared a dividend in the current financial year. During the current financial year a dividend of \$700,000 was paid from profits generated in the financial year ended 30 June 2004.

REVIEW OF OPERATIONS

A summary of consolidated revenue and results by business segments is set out below:

	Sales Revenues		Segment Result	
	2005 \$	2004 \$	2005 \$	2004 \$
Sleep	17,384,640	18,215,751	(74,278)	1,932,998
Neuroscan	9,448,518	10,916,989	(903,574)	1,707,835
Neuroscience	7,504,725	1,974,792	(2,224,912)	(880,566)
Neuro Medical Supplies	3,819,184	2,855,886	641,651	180,891
Total	38,157,067	33,963,418	(2,561,113)	2,941,158
Less: Unallocated revenue less unallocated expenses			(996,374)	(460,032)
Profit/(Loss) from ordinary activities before interest and income tax expense			(3,557,487)	2,481,126
Net interest expense			(339,469)	(72,070)
Income tax expense			(704)	(12,373)
Net profit/(loss) attributable to members of Compumedics Limited			(3,897,660)	2,396,683

The company as previously announced has implemented a number of changes to its sales and marketing infrastructure and as a consequence will focus on the successful development of those resources to ensure the company returns to profitability and cash generation.

Sleep

Revenue in the sleep diagnostic business at \$17.4m was 5% lower than the previous corresponding period. In US dollars sales revenue in the US sleep diagnostic business grew by 14% year on year despite the sales and marketing leadership issues there, which are now in the process of being resolved. In Asia and Europe the sleep diagnostic revenues declined 17% year on year. This was primarily as a result of non performance of our European distributor, Drager. This agreement has now been terminated and we have employed a European Business Director to build the sleep diagnostic business in this market.

Brain Research (Neuroscan)

Revenue in the Brain Research (Neuroscan) business declined 13% over the previous corresponding period to \$9.4m. The USA business was the primary reason for the decline in revenues as funding to this market has slowed due to the war in Iraq. Neuroscan in Asia and Europe were not affected in the same way as the US business was and grew by 5% over the previous corresponding period.

Neuroscience

Revenue in the Neuroscience business was 280% higher at \$7.5m over the previous corresponding period. This is primarily driven by the acquisition of DWL in Germany and represents \$5.7m of the revenue increase in the year ended June 2005. In the USA revenues grew by 28% in US dollars over the previous corresponding period.

NeuroMedical Supplies

Revenue in the NeuroMedical supplies business grew by 34% to \$3.8m over the previous corresponding period. In the USA revenues grew by 28% in US dollars over the previous corresponding period. The supplies business represented 10% of total revenues for the year ended 30 June 2005, an increase on the 8% of total revenues for the year ended 30 June 2004.

EARNINGS PER SHARE

	Notes	2005 Cents	2004 Cents
Basic earnings per share	34	(2.8)	1.7
Diluted earnings per share	34	(2.8)	1.7
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	34	(1.8)	2.1
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	34	(1.8)	2.1

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors are not aware of any event at the date of this report but subsequent to financial year end that would have a material impact on the Company.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

INFORMATION ON DIRECTORS

Particulars of Directors' interests in shares and options of Compumedics Limited

Director	Experience	Special Responsibilities	Ordinary Shares	Options
David Burton	Executive Director for 18 years. Chairman for 18 years.	Member of Remuneration Committee	89,761,608	292,645
Koichiro Koike	Non-executive Director for 6 years. Executive Director for 4 years.	Non-executive Director, Corporate Development	—	660,000
Bruce Rathie (21 October 2004 to 30 June 2005)	Non-executive Director for 8 months.	Chairman of Audit Committee	10,000	—
John Dyson (1 July 2004 to 21 October 2004)	Non-executive Director for 8 years, 4 months.	Chairman of Audit Committee	120,000	216,000
Prof Graham Mitchell	Non-executive Director for 4 years, 7 months.	Member of the Remuneration Committee	—	66,000
Alan Anderson	Non-executive Director for 4 years, 7 months. Attorney at Law based in the USA.	Chairman of the Remuneration Committee. Member of the Audit Committee	25,000	86,000

Share options that are vested and exercisable at 30 June 2005 are shown at Note 25.

Details regarding age and other directorships can be found on page 24 and 25. Mr Bruce Rathie has had a former directorship with an ASX listed company in the last 3 years. This was with Total Sport & Entertainment Group Limited from December 2000 to December 2002.

No other director has held any other directorships in the previous 3 years.

Directors' Report

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2005, and the numbers of meetings attended by each Director were:

	Full meeting of Directors		Meeting of Committees			
	A	B	Audit		Remuneration	
	A	B	A	B	A	B
David Burton	11	11	—	—	1	2
Koichiro Koike	9	11	—	—	—	—
John Dyson (retired Oct 04)	2	4	2	2	—	—
Prof Graham Mitchell	7	11	—	—	2	2
Alan Anderson	9	11	2	4	2	2
Bruce Rathie (appointed Oct 04)	7	7	2	2	—	—

A = Number of meetings attended

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

REMUNERATION REPORT

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 July, 2004. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

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

Retirement allowances for directors

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

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the Compumedics Limited Employee Option Plan, and
- other remuneration such as superannuation

The combination of these comprises the executive's total remuneration. The Company intends to introduce long-term equity linked incentives specifically for the Executive Chairman during the year ending 30 June 2006.

Base pay

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

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

There are no guaranteed base pay increases fixed in any senior executives' contract.

Benefits

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

Retirement benefits

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

Short-term incentives

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

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

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

For the year ended 30 June 2005, the KPIs linked to short term incentive plans were based on group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the senior executive team.

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

The STI target annual payment is reviewed annually. As the Company did not achieve its profit goals in the current financial year, no senior executive has received any short-term incentives related to the Company's current financial year performance. David Loiterton's bonus was based on prior year performance.

Directors' Report

Compumedics Employee Option Plan

Information on the Compumedics Option Plan is set out in Note 29 of the Financial Statements.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each director of Compumedics Limited and each of the 5 executives of the company and the consolidated entity receiving the highest remuneration for the year ended 30 June 2005 are set out in the following tables.

Directors of Compumedics Limited

Name	Primary			Post-employment		Equity	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
David Burton	341,550	—	—	—	—	—	341,550
Koichiro Koike	135,576	—	—	2,285	—	—	137,861
Alan Anderson	37,500	—	—	—	—	—	37,500
Prof. Graham Mitchell	30,023	—	—	2,477	—	—	32,500
Bruce Rathie (Oct 04-Jun 05)	21,357	—	—	—	—	—	21,357
John Dyson (July 04-Oct 04)	17,500	—	—	—	—	—	17,500

Other executives of Compumedics Limited

Name	Primary			Post-employment		Equity	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
Warwick Freeman	191,818	—	—	14,017	—	—	205,835
David Lawson	188,370	—	—	16,380	—	—	204,750
Andrew Smith	186,300	—	—	16,200	—	—	202,500
David Loiterton (July 04-Mar 05)	128,233	5,400	—	10,447	—	—	144,080

The Directors believe that the parent entity, Compumedics Limited, has only four executives.

Other executives of the consolidated entity

Name	Primary			Post-employment		Equity	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
Stephen Sands (July 04-May 05)	207,751	—	13,505	10,329	—	—	231,585
Warwick Freeman	191,818	—	—	14,017	—	—	205,835
David Lawson	188,370	—	—	16,380	—	—	204,750
Andrew Smith	186,300	—	—	16,200	—	—	202,500
Christoph Witte (Sep 04-Jun 05)	114,095	—	—	20,644	—	—	134,739

For remuneration classification purposes, senior managers are ranked in terms of their overall ability to significantly influence the results of the group in the financial year. This ability is not directly related to remuneration levels and therefore some senior managers may earn more than others but have less ability to influence the overall strategic direction of the group.

DWL was acquired on 1 September 2004 and therefore Christoph Witte's remuneration represents only 10 months of remuneration for the financial year ended 30 June 2005.

Service agreements

Remuneration and other terms of employment for specified executives are formalised in service agreements or letters of offer. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including car allowances, and participation, when eligible, in the Compumedics Limited Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below:

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2005 of \$341,550, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2004
- David Burton does not have a formal service agreement.

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2005 of \$205,835, to be reviewed annually by the remuneration committee
- Car allowance of \$30,626
- Review of last salary – 1 July 2004
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of \$204,750, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2004
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Andrew Smith, *Chief Operating Officer*

- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$202,500
- Review of last salary – 1 July 2004
- Andrew Smith has resigned subsequent to year end, effective 24 August 2005.

David Loiterton, *General Manager Sales and Marketing (1 Jul 04 – 31 March 05)*

- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$150,000
- Review of last salary – 1 July 2004
- David Loiterton resigned effective 31 March 05

Stephen Sands, *Chief Scientist (1 July 2004 – 13 May 2005)*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of USD178,500
- Insurance paid of USD10,153
- Dr Sands resigned effective 13 May 05

Christoph Witte, *Managing Director, DWL (from 1 September 2004 – 30 June 2005)*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of EUR92,405, to be reviewed annually by the remuneration committee
- Car Allowance of EUR2,950
- Christoph Witte's service agreement commences 1 September 2004 with a 2 year fixed notice period until 1 September 2005, after which the notice period reduces proportionately to six months at 1 September 2007.

Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in Note 25 to the financial statements.

Directors' Report

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED EXECUTIVES

There were no options over unissued ordinary shares of Compumedics Limited granted during or since the end of the financial year.

Mr Bruce Rathie was offered 20,000 options on his appointment as a non-executive director of Compumedics Limited, for which approval will be sought at the annual general meeting on 27th October 2005.

SHARES UNDER OPTION

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

	Number	Exercise Price of Shares (\$)	Expiry Date
Options issued at IPO	5,238,000	0.50	21 Dec 05
(adjusted for retirements)	(845,000)	0.50	21 Dec 05
New Issues for the year ended 30 June 2002	220,423	0.40 to 0.95	Various
(adjusted for retirements)	(10,000)	0.95	1 Mar 2006
New Issues for the year ended 30 June 2003	222,222	0.01	24 Dec 2007
New Issues for the year ended 30 June 2004	50,000	0.43	8 Dec 2008
(adjusted for retirements)	(50,000)	0.43	8 Dec 2008
New Issues for the year ended 30 June 2004	50,000	0.31	11 Apr 2009
New Issues for the year ended 30 June 2005	—	—	—
Total	4,875,645		

The options issued at IPO are exercisable based on the following parameters:

	Options Exercisable	Exercise Date	Share Price Hurdle
1st Tranche	20% of options held	21 Dec 2001	\$0.65
2nd Tranche	30% of options held	21 Dec 2002	\$0.85
3rd Tranche	50% of options held	21 Dec 2003	\$1.00

For options to be exercisable on the exercise date, the share price hurdle must have been achieved for any 30 continuous days prior to the exercise date.

The third tranche of shares are yet to become exercisable.

There were no new options issued during the year.

INSURANCE OF OFFICERS

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

In accordance with normal commercial practice, under the terms of the insurance contracts, the nature of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid, are confidential.

NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out at note 26.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out at note 26, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

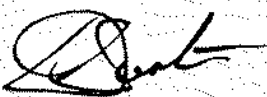
- all non-audit services have been reviewed by the Chief Financial Officer to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to the auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out below.

AUDITOR

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

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



D Burton
Director

Melbourne
19 September 2005

Auditors' Independence Declaration

PRICEWATERHOUSECOOPERS

As lead auditor for the audit of Compumedics Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
19 September 2005

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Corporate Governance Statement

Compumedics Limited (Compumedics) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. An extensive review of the company's corporate governance framework was completed in August and September 2003 in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003. The company's framework was largely consistent with the recommendations and exceeded them in some areas. The company and the Audit Committee are currently reviewing the Corporate Governance arrangements of the company and the on-going appropriateness of existing charters and any other charters that may be appropriate for the Company to adopt. It is expected that this process will be completed by the end of this calendar year. The company and its controlled entities together are referred to as the Group in this statement.

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

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

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

THE BOARD OF DIRECTORS

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

Board composition

The charter states:

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

Responsibilities

The responsibilities of the Board include:

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

Board members

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

The Board seeks to ensure that:

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

Directors' independence

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

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

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

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

Term of office

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

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

Chairman and Chief Executive Officer (Executive Chairman)

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

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

Commitment

The Board held eleven Board meetings.

The number of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2005, and the number of meetings attended by each director is disclosed in the Directors' Report.

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

Independent professional advice

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

Corporate Governance Statement

Performance assessment

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

Corporate reporting

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

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

The company adopted this reporting structure for the year ended 30 June 2005.

Board committees

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

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

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

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

REMUNERATION COMMITTEE

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

A Anderson (Chairman)

G Mitchell

and the following executive director

D Burton

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

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

Committee members receive regular third party information from external remuneration sources on recent developments on remuneration and related matters.

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

Further information on directors' and executives' remuneration is set out in the directors' report and note 25 to the financial statements.

The remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

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

AUDIT COMMITTEE

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

J Dyson (Chairman from 1 July 2004 to 21 October 2004)

B Rathie (Chairman from 21 October 2004 to 30 June 2005)

A Anderson

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

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

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

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

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management, and external auditors.
- meets with the external auditors at least twice a year.
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

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

EXTERNAL AUDITORS

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

A copy of the auditor's independence declaration is required under section 307C of the *Corporations Act 2001* is set out on page 37.

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

RISK ASSESSMENT AND MANAGEMENT

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

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

CODE OF CONDUCT

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

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

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

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

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

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

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

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

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

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

Statements of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from sale of goods and services	3	38,157,067	33,963,418	18,747,039	20,979,960
Cost of sales		(17,864,077)	(14,580,181)	(9,503,510)	(8,644,296)
Gross profit		20,292,990	19,383,237	9,243,529	12,335,664
Other revenues from operating activities	3	342,092	376,535	267,000	375,930
Other expenses from operating activities					
Administration		(5,018,763)	(3,486,841)	(2,788,981)	(2,478,674)
Sales & Marketing		(10,322,897)	(6,842,079)	(3,607,407)	(3,383,681)
Research & Development		(7,883,357)	(6,500,119)	(4,421,982)	(3,997,849)
Borrowing costs	4	(549,366)	(267,888)	(505,144)	(255,595)
Net foreign exchange loss	4	(757,655)	(253,789)	(760,937)	(25,722)
Profit/(Loss) from ordinary activities before income tax expense		(3,896,956)	2,409,056	(2,573,922)	2,570,073
Income tax expense	5	(704)	(12,373)	–	–
Profit/(Loss) from ordinary activities after income tax expense		(3,897,660)	2,396,683	(2,573,922)	2,570,073
Net Profit/(Loss) attributable to members of Compumedics Limited		(3,897,660)	2,396,683	(2,573,922)	2,570,073
Total changes in equity other than those resulting from transactions with owners as owners		(3,897,660)	2,396,683	(2,573,922)	2,570,073
		Cents	Cents		
Basic earnings per share	34	(2.8)	1.7		
Diluted earnings per share	34	(2.8)	1.7		
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	34	(1.8)	2.1		
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	34	(1.8)	2.1		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

AS AT 30 JUNE 2005

	Notes	Consolidated		Parent	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash assets	6, 24	3,922,037	6,351,637	3,364,623	5,443,565
Receivables	7	11,238,712	10,239,362	4,252,175	5,039,957
Inventories	8	5,962,197	6,481,192	3,556,512	3,901,529
Other	9	426,381	68,608	6,972	53,628
TOTAL CURRENT ASSETS		21,549,327	23,140,799	11,180,282	14,438,679
NON-CURRENT ASSETS					
Receivables	10	118,621	—	7,464,430	5,661,721
Other financial assets	11	—	—	541,853	148,290
Property, plant and equipment	12	1,520,872	1,368,407	1,010,471	898,869
Intangible assets	13	1,360,633	—	—	—
TOTAL NON-CURRENT ASSETS		3,000,126	1,368,407	9,016,754	6,708,880
TOTAL ASSETS		24,549,453	24,509,206	20,197,036	21,147,559
CURRENT LIABILITIES					
Payables	14, 24	7,455,840	4,614,003	3,939,447	2,826,672
Interest bearing liabilities	15, 24	1,390,816	1,884,071	845,535	1,932,869
Tax liabilities	16	71,600	55,246	—	—
Provisions	17	535,396	345,913	368,500	164,674
Other liabilities	18	1,077,598	1,329,906	242,386	484,050
TOTAL CURRENT LIABILITIES		10,531,250	8,229,139	5,395,868	5,408,265
NON-CURRENT LIABILITIES					
Interest bearing liabilities	19, 24	4,546,135	2,122,459	4,546,135	2,122,459
Provisions	20	114,633	197,632	114,633	197,632
Other liabilities	21	10,000	14,881	10,000	14,881
TOTAL NON-CURRENT LIABILITIES		4,670,768	2,334,972	4,670,768	2,334,972
TOTAL LIABILITIES		15,202,018	10,564,111	10,066,636	7,743,237
NET ASSETS		9,347,435	13,945,095	10,130,400	13,404,322
EQUITY					
Contributed equity	22	29,020,201	29,020,201	29,020,201	29,020,201
Retained losses	23	(19,672,766)	(15,075,106)	(18,889,801)	(15,615,879)
TOTAL EQUITY		9,347,435	13,945,095	10,130,400	13,404,322

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated		Parent	
	Notes	2005 \$	2004 \$	2005 \$	2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (Inclusive of GST)		37,386,389	32,625,045	18,079,405	20,269,753
Payments to suppliers & employees (Inclusive of GST)		(37,566,339)	(30,119,964)	(19,677,909)	(18,307,848)
Interest & other items of a similar nature		209,897	195,818	209,774	195,628
Receipts from grants and other items of a similar nature		132,195	180,718	57,226	180,302
Interest & other costs of finance paid		(533,563)	(267,888)	(489,340)	(255,595)
Income taxes paid		4,831	15,552	—	—
Net cash inflow / (outflow) from operating activities	33	(366,590)	2,629,281	(1,820,844)	2,082,240
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for purchase of controlled entity net of cash acquired	31	(2,622,148)	(2,292,930)	—	(2,292,930)
Payment for investment	31	—	—	(393,563)	—
Payments for property plant & equipment		(344,947)	(652,259)	(174,541)	(422,265)
Proceeds from sale of property plant and equipment		—	5,500	—	5,500
Dividend Paid	23	(700,000)	—	(700,000)	—
Net cash inflow / (outflow) from operating activities		(3,667,095)	(2,939,689)	(1,268,104)	(2,709,695)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		2,713,504	3,847,217	2,713,504	3,847,217
Repayments of finance leases		(133,314)	(42,826)	(133,314)	(42,826)
Payment of GST from IPO	22	—	(126,805)	—	(126,805)
Repayment of borrowings		(1,471,680)	(2,381,632)	(1,471,680)	(2,381,632)
Net cash inflow / (outflow) from financing activities		1,108,510	1,295,954	1,108,510	1,295,954
Net Increase / (Decrease) in cash held		(2,925,175)	985,546	(1,980,438)	668,499
Cash at the beginning of the financial year		6,351,637	5,366,091	5,443,565	4,775,066
Effects of exchange rate changes on cash		(98,504)	—	(98,504)	—
Net Cash Balance at the end of the financial year	6	3,327,958	6,351,637	3,364,623	5,443,565

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

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Basis of preparation

During the year ended 30 June 2005 the consolidated entity ("Compumedics") incurred an operating loss, contributed to in part by Compumedics strategy and resolve to change and restructure the organisation to facilitate continued sales growth.

This past year has seen an aggressive restructure program implemented across the sales and marketing functions in each geographic territory of the business. This has been combined with further restructuring of the operational facets of the business.

In addition, the restructure programs have also enabled the DWL acquisition to be integrated into the broader organisation so as to further contribute towards the Company's quest for ongoing profitable growth.

During this past reporting period and as the Company moves forward, the Company has been, and expects to be, strongly supported by its bank as it works through this current strategy of restructuring for continued growth whilst focusing on restoring the profitability of the business. Compumedics has sought and been given a waiver for the breach of loan covenants during the year ended 30 June 2005. In addition the bank has agreed to restructure its facilities including the financial covenants to better reflect the dynamics of the business going forward. The Directors and executive management of the company are confident, based on its current budgeting, financial performance so far this year and the existing sales pipelines, to be compliant with the revamped facilities requirements during the course of 2006.

The Directors and executive management are also implementing a number of additional strategies in order to potentially raise capital or reduce costs should the need arise.

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

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Compumedics Limited as at 30 June 2005 and the results of all controlled entities for the year then ended. Compumedics Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

(c) Warranty

Warranty costs are expensed as incurred with a provision made for estimated liability on products still under warranty. The amount provided each year for warranty is calculated based on a percentage of sales.

(d) Intangible assets and expenditure carried forward

(i) Intellectual Property acquired

Intellectual property acquired on the acquisition of an entity or operation is capitalised at cost where it is expected beyond any reasonable doubt to be recoverable. Intellectual property is amortised from acquisition on a straight line basis over the period of the expected benefit, which is approximately four years.

(ii) Patents and Trademarks acquired

Costs associated with patents and trademarks acquired are deferred and amortised on a straight line basis over the period of the expected benefit, which is approximately four years.

(e) Revenue recognition

Amounts disclosed as revenues are net of returns, trade allowances and duties and taxes paid. In addition, the revenue recognition policy defers 12% (2004: 20%) of revenue to end user customers until the post sale training and installation obligations have been completed. This revenue is then recognised at that time.

During the course of the year the percentage rate used for deferment of revenue, where a post sale installation and training obligation exists, was reviewed. In light of actual installation and training costs incurred during the year and payment terms agreed to on sales, the percentage rate has been adjusted to defer 12% (2004: 20%) of revenues where the post sale and training obligation exists.

Where service contracts are entered into with customers over extended periods, revenue is recognised evenly over the life of the contract. Revenue not recognised is deferred and recorded as revenue in advance (Note 18).

(f) Receivables

All trade debtors are recognised at the amounts receivable, as they are generally due for settlement no more than 30 days from shipment of goods, except where an installation and training obligation exists. Typically these activities occur within 60 days of the shipment of the goods.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when doubt as to collection exists.

(g) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock on the basis of weighted average costs.

(h) Recoverable amount of non-current assets

The directors have reviewed the value of property, plant and equipment as reported in the statement of financial position and consider these to be the recoverable value of these assets.

(i) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives for all categories of property, plant and equipment are between 2 and 6 years.

Leases of plant and equipment under which the Company assumes substantially all the risks and benefits of ownership are classified as finance leases.

(j) Employee entitlements

(i) *Wages and salaries, annual leave and sick leave*

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

(ii) *Long service leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave is expected to be settled more than 12 months from the reporting date is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) *Equity-based compensation benefits*

Equity-based compensation benefits are provided to employees via the Compumedics Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 29.

No accounting entries are made in relation to the Compumedics Employee Share Scheme until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in note 25 include the assessed fair values of options at the date they were granted.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as a liability and as part of employee benefit costs when the employees become entitled to the shares. When the shares are issued, their market value is recognised in the statement of financial position as share capital.

(k) Cash

For purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of outstanding bank overdrafts. The bank overdraft is shown within current interest bearing liabilities at Note 15.

(l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and usually paid within 30 days of recognition.

(m) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

No provision is made for additional taxes which could become payable if certain reserves of the foreign controlled entity were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

(n) Foreign currency translation

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(ii) Specific commitments

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred up to the date of the purchase or sale and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the statement of financial performance over the lives of the hedges.

When anticipated purchase or sale transactions have been hedged, actual purchases or sales which occur during the hedged period are accounted for as having been hedged until the amounts of those transactions are fully allocated against the hedged amounts.

(iii) Foreign controlled entity

Where the controlled entities are integrated with the activities of the parent entity, the assets, liabilities and equity of these operations are consolidated using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenue and expenses, are translated using historic rates of exchange or average rates of exchange for the year, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expense by the entity.

(o) Directors' and Executive Remuneration

Directors and Executives remuneration disclosed in the financial statements in Note 25 includes an indicative fair value of options at the date they are granted.

(p) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over periods ranging from 2 to 4 years.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

The present value of future payments for surplus leased space under non-cancelable operating leases which are not onerous contracts is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the consolidated entity. The net future lease payments are discounted using the interest rates implicit in the leases. Each lease payment is allocated between the liability and finance charges.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(q) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. The life of the lease is four years.

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Borrowing costs include:

- Interest on bank overdrafts and short-term and long-term borrowings
- Finance lease charges, and
- Certain exchange differences arising from foreign currency borrowings.

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

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

(t) Transition to Australian equivalents to International Financial Reporting Standards (AIFRS)

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has begun to manage the transition to AIFRS, a process which is led by the Chief Financial Officer.

To date most of the AIFRS have been analysed and the consolidated entity has identified the accounting policy changes that will be required for those policy changes identified. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The consolidated entity will be taking advantage of the exemption under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 July 2005. This allows the consolidated entity to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

On the initial application of AIFRS, the consolidated entity will elect to apply the exemption in AASB 1 relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve will be deemed to be zero at the date of transition to AIFRS.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are stated, where known, with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

The disclosures should not however be considered a complete list of all impacts, as at this time not all policy impacts have been identified.

In addition, although the known adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB.

Therefore, until the consolidated entity prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

The material changes required by the transition to AIFRS are related to:

- The likely impacts of the assessment of the functional currencies of Compumedics Limited's off-shore operating entities, Compumedics USA Limited and Compumedics Germany GmbH.
- The likely impacts of any changes to the currently issued IPO options and any future issues of options by the company.
- Classification of liabilities.

Material changes may be required by the transition to AIFRS but insufficient analysis has been completed to date for the consolidated entity to assess their likely impact. These include:

- The possible recognition of deferred tax liabilities in respect of intellectual property acquired during the year.
- The possible impact of tax consolidation under AIFRS.

Other changes that are required by the transition to AIFRS but are not considered to have a material impact on the restatement of the accounts include:

- Remeasurement of employee provision accounts

In considering the impact of the transition to AIFRS on the restatement of the 30 June 2005 accounts with regard to the material items noted above the following detailed analysis is provided.

(i) *Foreign Exchange*

Under current AGAAP, AASB 1012 *Foreign Currency Translation* looks to the relationship between the foreign operation and the reporting entity to determine the classification of a foreign operation as either integrated or self-sustaining, and the consequential method of translating the foreign operations's financial information. In determining whether foreign operations of the Group were self-sustaining or integrated, under AGAAP, the governing determinants indicated that the activities and cash flows of the foreign operations were integrated with the activities of the parent entity. Consequently, under AGAAP, the assets, liabilities and equity of these operations are consolidated using the temporal method of translation.

Under AIFRS, on the other hand, AASB 121 *The Effects of Changes in Foreign Exchange Rates* does not distinguish between foreign operations that are integrated and those that are self-sustaining. Instead, each entity must identify its functional currency by giving consideration to the determining factors as listed in that standard. These factors include both primary considerations as well as additional secondary factors that might further provide evidence of an entity's functional currency. The factors that resulted in the classification of these operations under AGAAP are given less weight than other factors under AIFRS.

The Group expects on transition to AIFRS to identify functional currencies of USD and Euro for its two material controlled foreign operations, Compumedics USA Limited and Compumedics Germany GmbH, respectively.

Consequently, the likely impact of the identification of functional currencies other than the Australian Dollar on foreign operations controlled by the group will be:

- the Group will be required to translate all items into the functional currency using the exchange rate at the date of transition, as this will correspond to the date of change.

Transactions and balances

- foreign currency transactions will be defined as any transactions in a currency other than the functional currency from the date of transition, and are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in a foreign currency will be recognised in the income statement.

Translation into Group presentational currency

- the results and financial position of all the Group entities that have a functional currency different from the Australian Dollar, will be translated into Australian Dollars in the Group accounts, with all resulting exchange differences recognised as a separate component of equity
- any exchange differences arising on a monetary item that forms part of the reporting entity's net investment in that foreign operation will be recognised in the consolidated accounts as a separate component of equity and will only be recognised in the profit and loss on disposal of the net investment in that foreign operation

The impact of this change in foreign exchange treatment as required by the transition to AIFRS has not yet been quantified as the Company has yet to complete this phase of the AIFRS transition process.

(ii) *Options Issued at IPO and post IPO*

Under AASB 2 *Share based Payment*, from 1 July 2004 the group would be required to recognise an expense for any options that were issued to employees after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity based compensation.

The primary considerations with options issued to employees at IPO and post IPO in determining whether there is an impact on transition to AIFRS is whether their life is extended.

If the options are to lapse pursuant to their original terms there would be no impact as a consequence of the transition to AIFRS for those options issued at IPO as these options were all granted before 7 November 2002. There would similarly be no impact as a consequence of the transition to AIFRS for those options issued post IPO as these options were fully vested at 1 January 2005.

However, if new options are issued or the options previously issued at IPO or post IPO have their life extended then there will be a charge to the profit and loss based on the assessed fair value of the options at that time, accounted for as an expense over their new vesting period, pursuant to the requirements of AASB 2.

At this time the Board has not determined whether the options issued at IPO or post IPO will have their lives extended. Therefore at this time there are no likely charges to the profit and loss.

As for the other impacts of the transition to AIFRS, the consolidated entity does not at this time consider there to be any material financial restatement of the accounts.

(iii) *Classification of liabilities*

Under AASB 101 *Presentation of Financial Statements* liabilities are required to be classified as current when an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, even if the lender has agreed, after the reporting date and before the authorisation of the financial report for issue, not to demand payment as a consequence of the breach.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, \$4.4m of the entity's non current interest bearing liabilities would be reclassified as current interest bearing liabilities as at 30 June 2005.

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 2. SEGMENT INFORMATION

Primary reporting – Business Segments

2005

	Sleep	Brain Research (Neuroscan)	Neuroscience (Clinical EEG & DWL)	Neuro Medical Supplies	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
Sales to external customers	17,384,640	9,448,518	7,504,725	3,819,184	–	38,157,067
Intersegment sales	–	–	–	–	–	–
Total sales revenue	17,384,640	9,448,518	7,504,725	3,819,184	–	38,157,067
Other revenue	173,195	94,131	74,766	–	–	342,092
Total segment revenue	17,557,835	9,542,649	7,579,491	3,819,184	–	38,499,159
EBIT – SEGMENT RESULT	(74,278)	(903,574)	(2,224,912)	641,651	(996,374)	(3,557,487)
Net interest expense						(339,469)
Tax expense						(704)
Net profit after interest and tax						(3,897,660)
Segment assets	7,267,454	4,144,059	4,113,247	1,794,770	–	17,319,530
Unallocated assets						7,229,923
Tax assets						–
Total assets						24,549,453
Segment liabilities	3,397,222	1,846,383	1,718,785	493,450	–	7,455,840
Unallocated liabilities						7,674,578
Tax liabilities						71,600
Total liabilities						15,202,018
Net assets						9,347,435
Acquisition of property, plant and equipment	–	–	137,776	–	647,927	785,703
Acquisition of intangibles and other non-current segment assets	–	–	1,743,874	–	–	1,743,874
Depreciation and amortisation	–	–	–	–	(996,374)	(996,374)
Other non-cash expenses	–	–	–	–	–	–

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Primary Reporting – Business Segments

2004	Sleep	Brain Research (Neuroscan)	Neuro- science	Neuro Medical Supplies	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
Sales to external customers	18,215,751	10,916,989	1,974,792	2,855,886		33,963,418
Intersegment sales	—	—	—	—		—
Total sales revenue	18,215,751	10,916,989	1,974,792	2,855,886	—	33,963,418
Other revenue	96,924	58,089	10,508	15,196		180,717
Total segment revenue	18,312,675	10,975,078	1,985,300	2,871,082	—	34,144,135
EBIT – SEGMENT RESULT	1,932,998	1,707,835	(880,566)	180,891	(460,032)	2,481,126
Net interest expense						(72,070)
Tax expense						(12,373)
Net profit after interest and tax						2,396,683
Segment assets	8,322,027	5,092,021	1,233,563	1,720,113		16,367,725
Unallocated assets						8,141,482
Tax assets						—
Total assets						24,509,207
Segment liabilities	2,932,311	5,763,911	317,896	459,731		9,473,849
Unallocated liabilities						1,035,016
Tax liabilities						55,246
Total liabilities						10,564,111
Net assets						13,945,096
Acquisition of property, plant and equipment	—	—	—	—	—	652,259
Acquisition of intangibles and other non-current segment assets	—	—	—	—	—	—
Depreciation and amortisation	—	—	—	—	(460,032)	(460,032)
Other non-cash expenses	—	—	—	—	—	—

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Secondary reporting – Geographical Segments

2005	USA	Asia/Pacific	Europe	Eliminations	Consolidated Amount
	\$	\$	\$	\$	\$
Sales to external customers	16,633,735	15,918,869	5,604,463	–	38,157,067
Intersegment sales	1,178,903	2,828,170	622,494	(4,629,567)	–
Total sales revenue	17,812,638	18,747,039	6,226,957	(4,629,567)	38,157,067
Segment assets	2,892,525	20,147,354	3,899,070	(2,389,496)	24,549,453
Tax assets					–
Total assets					24,549,453
Acquisition of property, plant and equipment	141,445	477,520	166,738	–	785,703
Acquisition of intangibles and other non-current segment assets	–	–	1,743,874	–	1,743,874

Secondary reporting – Geographical Segments

2004	USA	Rest of World	Eliminations	Consolidated Amount
	\$	\$	\$	\$
Sales to external customers	18,019,925	15,943,493	–	33,963,418
Intersegment sales	1,348,118	5,036,467	(6,384,585)	–
Total sales revenue	19,368,043	20,979,960	(6,384,585)	33,963,418
Segment assets	9,090,010	21,081,123	(5,661,926)	24,509,207
Tax assets				–
Total assets				24,509,207
Acquisition of property, plant and equipment	235,495	416,764	–	652,259
Acquisition of intangibles and other non-current segment assets	–	–	–	–

Notes to and forming part of the segment information

(a) Notes to the segment information

The consolidated entity operates in four industry markets that being research, development, manufacture and distribution of sleep diagnostics equipment (Sleep), brain research equipment (Neuroscan), neuro diagnostics equipment (Neuroscience) and neuro medical supplies (Neuro Medical Supplies). On September 1, 2004 Compumedics acquired the business of DWL. The DWL business is disclosed as part of the neuro diagnostics equipment (Neuroscience) industry market.

(b) Geographical segments

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

Following the acquisition of the DWL business in September, 2004 the European based business has grown to represent a material component of the overall group in terms of revenues.

It is expected that the European based business will remain a material component of the group's financial performance going forward. As a consequence this years secondary segment information, which highlights the geographical performance of the group has been changed to split out from the previous rest of world number, both the Asia Pacific and European based businesses. The Asia Pacific business includes the Australian operations.

The European based business as reported here is at present the DWL business as it operates out of offices in Singen, Germany. Sleep, Clinical EEG and Neuroscan sales into Europe are still recorded as sales into Asia Pacific as they are currently shipped and invoiced directly from the factory in Melbourne to Europe.

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 3. REVENUE				
REVENUE FROM OPERATING ACTIVITIES				
Sale of goods	37,217,330	33,295,795	18,017,873	20,384,799
Services	939,737	667,623	729,166	595,161
	38,157,067	33,963,418	18,747,039	20,979,960
REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES				
Interest	209,897	195,818	209,774	195,628
Government Grants	79,392	131,062	49,171	131,062
Other	52,803	49,655	8,055	49,240
	342,092	376,535	267,000	375,930
Revenue from ordinary activities	38,499,159	34,339,953	19,014,039	21,355,890

NOTE 4. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax includes the following specific net gains and expenses:

GAINS

Gain on disposal of non-current assets	–	5,500	–	5,500
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EXPENSES

Depreciation – plant and equipment	613,133	460,032	365,918	330,903
Amortisation – intellectual property	383,241	–	–	–
Provision for inventory obsolescence	610,354	433,764	216,638	270,732
Provision for doubtful trade debtors	115,128	166,166	62,710	171,788
Borrowing costs	549,366	267,888	505,144	255,595
Service warranty provisions	134,427	124,179	124,018	88,307
Operating leases – minimum lease payments	1,074,546	764,897	452,488	434,701
Net foreign exchange loss	757,655	253,789	760,937	25,722
Non-current assets written off	20,105	–	–	–

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 5. INCOME TAX EXPENSE				
The income tax expenses for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit(loss) from ordinary activities before income tax expense / (benefit)	(3,896,956)	2,409,055	(2,573,922)	2,570,073
Income tax calculated at 30%	(1,169,087)	722,717	(772,177)	771,022
Tax effect of permanent differences:				
25% Non-grant R&D loading/allowance	(311,532)	(324,101)	(311,532)	(324,101)
Non-deductible entertainment expenses	6,656	9,334	6,656	9,334
Other Non-deductible permanent differences	23,552	69,717	-	-
Non-deductible amortisation	114,972	-	-	-
Timing differences not brought to account (note a)	302,333	521,105	140,491	548,885
Utilisation of prior year tax losses	-	(968,755)	-	(1,005,140)
Current tax losses not brought to account (note a)	1,048,275	-	936,562	-
Income tax adjusted for permanent differences	15,169	30,017	-	-
Under / (over) provision in previous year	(14,465)	(17,644)	-	-
Aggregate income tax expense / (benefit)	704	12,373	-	-
Aggregate income tax / (benefit) comprises:				
Current taxation provision	15,169	30,017	-	-
Under / (over) provision in prior year	(14,465)	(17,644)	-	-
Income tax expense / (benefit)	704	12,373	-	-
TAX LOSSES				
The directors estimate that the Future Income Tax Benefit at 30 June 2005, in respect of tax losses not brought to account is	3,578,175	2,529,900	3,399,130	2,462,568

- (a) The benefit of tax losses and timing differences will only be obtained if:
- (i) the company derived future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised.
 - (ii) the company continued to comply with the conditions for deductibility imposed by tax legislation, and
 - (iii) no change in tax legislation adversely affected the company in realising the benefit from the deductions for the loss.
- (b) Compumedics Limited and its wholly owned Australian controlled entities have not yet decided whether to implement the tax consolidation legislation.

	Consolidated		Parent	
	2005	2004	2005	2004
	\$	\$	\$	\$
NOTE 6. CURRENT ASSETS – CASH ASSETS				
Cash at bank and on deposit per statement of financial position	3,922,037	6,351,637	3,364,623	5,443,565
Less Bank overdraft (Note 15)	(594,079)	–	–	–
Balance per statement of cash flow	3,327,958	6,351,637	3,364,623	5,443,565
NOTE 7. CURRENT ASSETS – RECEIVABLES				
Trade debtors	11,397,112	10,376,084	4,039,729	4,857,097
Less: Provision for doubtful debts	(593,077)	(477,949)	(208,493)	(145,783)
	10,804,035	9,898,135	3,831,236	4,711,314
Other debtors	224,823	136,450	211,085	123,866
Receivable from Director related parties (Note 25)	209,854	204,777	209,854	204,777
TOTAL	11,238,712	10,239,362	4,252,175	5,039,957
NOTE 8. CURRENT ASSETS – INVENTORIES				
Raw materials – at cost	5,160,135	4,701,751	3,164,330	2,996,905
Work in progress – at cost	1,225,601	357,738	490,985	341,827
Finished goods – at cost	2,210,409	3,445,297	1,897,907	2,342,869
Less: Provision for obsolescence	(2,633,948)	(2,023,594)	(1,996,710)	(1,780,072)
TOTAL	5,962,197	6,481,192	3,556,512	3,901,529
NOTE 9. CURRENT ASSETS – OTHER				
Prepayments	82,803	68,608	6,972	53,628
Sales tax receivable	343,578	–	–	–
TOTAL	426,381	68,608	6,972	53,628
NOTE 10. NON CURRENT ASSETS – RECEIVABLES				
Trade debtors	118,621	–	–	–
Amount owing from controlled entities	–	–	7,464,430	5,661,721
TOTAL	118,621	–	7,464,430	5,661,721
NOTE 11. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS				
Shares in controlled entities – at cost (note 31)	–	–	7,624,903	7,231,340
Less provision for diminution	–	–	(7,083,050)	(7,083,050)
TOTAL	–	–	541,853	148,290

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT				
PLANT & EQUIPMENT				
Plant & equipment at cost	567,744	547,915	469,084	442,504
Less: Accumulated depreciation	(465,063)	(434,195)	(409,377)	(384,653)
	102,681	113,720	59,707	57,851
Plant & equipment under lease	429,559	356,765	429,559	356,765
Less: Accumulated depreciation	(240,582)	(207,155)	(240,582)	(207,155)
	188,977	149,610	188,977	149,610
MOTOR VEHICLES				
At cost	133,357	156,561	–	18,550
Less: Accumulated depreciation	(65,393)	(65,334)	–	(18,550)
	67,964	91,227	–	–
OFFICE EQUIPMENT				
Office equipment at cost	2,082,620	1,785,973	1,399,016	1,333,267
Less: Accumulated depreciation	(1,245,280)	(1,043,014)	(961,139)	(912,750)
	837,340	742,959	437,877	420,517
Office equipment under lease	557,376	328,000	557,376	328,000
Less: Accumulated depreciation	(414,016)	(328,000)	(414,016)	(328,000)
	143,360	–	143,360	–
LEASEHOLD IMPROVEMENTS				
Leasehold improvements at cost	406,671	472,606	406,671	472,606
Less: Accumulated depreciation	(226,121)	(201,715)	(226,121)	(201,715)
	180,550	270,891	180,550	270,891
TOTAL	1,520,872	1,368,407	1,010,471	898,869

NOTE 12: NON-CURRENT ASSETS – PROPERTY PLANT & EQUIPMENT CONTINUED

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Plant and Equipment	Plant and Equipment Leased	Motor Vehicles	Office Equipment	Office Equipment Leased	Leasehold Improvements	Total
Consolidated	\$	\$	\$	\$	\$	\$	\$
Carrying amount at 1 July 2004	113,720	149,610	91,227	742,959	–	270,891	1,368,407
Additions	27,983	72,734	–	455,610	229,376	–	785,703
Carrying value of assets scrapped	–	–	–	(20,105)	–	–	(20,105)
Depreciation/amortisation expense (Note 4)	(39,022)	(33,367)	(23,263)	(341,124)	(86,016)	(90,341)	(613,133)
Carrying amount at 30 June 2005	102,681	188,977	67,964	837,340	143,360	180,550	1,520,872
Parent							
Carrying amount at 1 July 2004	57,851	149,610	–	420,517	–	270,891	898,869
Additions	26,580	72,734	–	148,830	229,376	–	477,520
Depreciation/amortisation expense (Note 4)	(24,724)	(33,367)	–	(131,470)	(86,016)	(90,341)	(365,918)
Carrying amount at 30 June 2005	59,707	188,977	–	437,877	143,360	180,550	1,010,471

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 13: NON-CURRENT ASSETS – INTANGIBLE ASSETS				
Intellectual property on acquisition at cost	1,743,874	–	–	–
Less: Accumulated amortisation	(383,241)	–	–	–
TOTAL	1,360,633	–	–	–

NOTE 14: CURRENT LIABILITIES – PAYABLES

Trade creditors	3,870,879	2,676,685	2,432,926	1,990,846
Other payables	3,584,961	1,937,318	1,306,767	660,054
Payable to controlled entities	–	–	199,754	175,772
TOTAL	7,455,840	4,614,003	3,939,447	2,826,672

Note: Other payables balance includes
Current annual leave provision as follows:

Annual leave provision (note 29)	749,446	491,471	517,265	368,225
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Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 15. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
SECURED				
Bank loan	300,000	1,400,000	300,000	1,400,000
Bank Overdraft	594,079	–	–	–
Bank finance facility	–	144,711	–	144,711
Lease liability (note 28)	183,299	–	183,299	–
	1,077,378	1,544,711	483,299	1,544,711
UNSECURED				
Concessional loan	313,438	339,360	313,438	339,360
Payable to controlled entities	–	–	48,798	48,798
TOTAL	1,390,816	1,884,071	845,535	1,932,869

The bank loan and overdraft are secured by a Mortgage Debenture which represents a fixed and floating charge over all present and future assets, undertakings (including goodwill) and unpaid/uncalled capital of the Company.

NOTE 16. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Provision for taxation	71,600	55,246	–	–
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NOTE 17. CURRENT LIABILITIES – PROVISIONS

Provisions – long service leave (note 29)	200,804	10,478	200,804	10,478
Provisions – warranties	334,592	335,435	167,696	154,196
TOTAL	535,396	345,913	368,500	164,674

WARRANTIES

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

MOVEMENT IN PROVISIONS

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

	Warranties – Consolidated	Warranties – Parent
Carrying amount at start of year	335,435	154,196
Additional provisions recognised	134,427	124,018
Payments/other sacrifices of economic benefits	(135,270)	(110,518)
Carrying amount at end of year	334,592	167,696

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 18. CURRENT LIABILITIES – OTHER				
Revenue in advance	1,043,022	1,282,140	242,386	484,050
Loan payable	34,576	47,766	–	–
TOTAL	1,077,598	1,329,906	242,386	484,050

NOTE 19. NON CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

SECURED				
Lease liability (note 28)	131,480	–	131,480	–
Bank Loan	4,414,655	1,952,505	4,414,655	1,952,505
UNSECURED				
Concessional loan	–	169,954	–	169,954
TOTAL	4,546,135	2,122,459	4,546,135	2,122,459

The bank loan is secured by a Mortgage Debenture which represents a fixed and floating charge over all present and future assets, undertakings (including goodwill) and unpaid/uncalled capital of the Company.

BANK LOAN FACILITIES

Total Facilities	7,758,000	5,289,506	7,758,000	5,289,506
Used at balance date	6,300,319	3,982,529	6,300,319	3,982,529
Unused at balance date	1,457,681	1,306,977	1,457,681	1,306,977

Refer to note 1 (a) for an explanation of the banking facilities.

NOTE 20. NON CURRENT LIABILITIES – PROVISIONS

Provisions – long service leave (note 29)	114,633	197,632	114,633	197,632
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NOTE 21. NON CURRENT LIABILITIES – OTHER

Revenue in advance	10,000	14,881	10,000	14,881
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Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

		Parent and Consolidated			
		2005 number	2004 number	2005 \$	2004 \$
NOTE 22. CONTRIBUTED EQUITY					
Issued and paid up capital		140,000,000	140,000,000	29,020,201	29,020,201
(a) Movements in ordinary share capital					
Date	Details	Notes	Number of Shares	Issue price \$	\$
30-06-2003	Balance	(b)	140,000,000		29,147,006
	Less : GST Payment on IPO	(c)			(126,805)
30-06-2004	Balance		140,000,000		29,020,201
	Nil movement in year				-
30-06-2005	Balance		140,000,000		29,020,201

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the company in proportion to the number of and amounts paid on shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote.

(c) GST payment on IPO

The GST costs associated with the initial public offer of ordinary shares in Compumedics Limited, were initially capitalised as part of Equity. As part of a review conducted by the ATO, it was found that the input tax credits booked as capital were required to be repaid.

(d) Options

Information relating to the Compumedics Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 29.

		Consolidated		Parent	
		2005 \$	2004 \$	2005 \$	2004 \$
NOTE 23. RETAINED PROFITS					
Accumulated losses at the beginning of the financial year		(15,075,106)	(17,471,789)	(15,615,879)	(18,185,952)
Dividend Paid		(700,000)	-	(700,000)	-
Net profit/(loss) attributable to members of Compumedics Limited		(3,897,660)	2,396,683	(2,573,922)	2,570,073
Accumulated losses at the end of the financial year		(19,672,766)	(15,075,106)	(18,889,801)	(15,615,879)

The company paid a dividend in December 2004 out of profits for the year ended June 30, 2004. This dividend was declared at the AGM in October 2004. As the company stated then, a dividend will be paid as and when the company can afford to do so. In line with this policy the company does not intend to pay a dividend for the 12 month period ended 30 June, 2005.

NOTE 24. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

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

	Notes	Fixed interest maturing in:					Total
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	
2005		\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS							
Cash and deposits	6	3,922,037	—	—	—	—	3,922,037
Receivables	7,10	—	264,398	118,621	—	10,974,314	11,357,333
Total		3,922,037	264,398	118,621	—	10,974,314	15,279,370
Weighted average interest rate		5.40%	7.50%	8.00%	—	—	
FINANCIAL LIABILITIES							
Bank loans and facilities	15,19	—	1,390,816	4,546,135	—	—	5,936,951
Trade and other creditors	14	—	—	—	—	7,455,840	7,455,840
Other loans	18	—	34,576	—	—	—	34,576
Revenue in advance	18,21	—	—	—	—	1,053,022	1,053,022
Total		—	1,425,392	4,546,135	—	8,508,862	14,480,389
Weighted average interest rate:			7.44%	7.44%			
Net financial assets (liabilities)		3,922,037	(1,160,994)	(4,427,514)	—	2,465,452	798,981
	Notes	Fixed interest maturing in:					Total
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	
2004		\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS							
Cash and deposits	6	6,351,637	—	—	—	—	6,351,637
Receivables	7	—	—	—	—	10,239,362	10,239,362
Total		6,351,637	—	—	—	10,239,362	16,590,999
Weighted average interest rate:		5.10%	—	—	—	—	
FINANCIAL LIABILITIES							
Bank loans and facilities	15,19	—	1,884,071	2,122,459	—	—	4,006,530
Trade and other creditors	14	—	—	—	—	4,614,003	4,614,003
Other loans	18	—	47,766	—	—	—	47,766
Revenue in advance	18,21	—	—	—	—	1,297,021	1,297,021
Total		—	1,931,837	2,122,459	—	5,911,024	9,965,320
Weighted average interest rate		—	6.22%	6.74%	—	—	
Net financial assets (liabilities)		6,351,637	(1,931,837)	(2,122,459)	—	4,328,338	6,625,679

NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Net fair values

The financial assets and liabilities as shown above are disclosed at their aggregate net fair values. With respect to assets, net fair values are determined using the cost to the company to acquire the asset. Net fair values for liabilities are determined by reference to the value of the liability when incurred.

(c) Off balance sheet derivative instruments

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

(d) Forward exchange contracts

At 30 June 2005 and 30 June 2004 there were no outstanding forward exchange contracts.

(e) Credit risk exposure

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position is generally the carrying amount, net of any provision for doubtful debts.

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

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

Chairman and Executive director

David Burton, Chief Executive Officer

Non-executive directors

Koichiro Koike

Alan Anderson

Prof. Graham Mitchell

Mr. John Dyson was a Director from the beginning of the financial year through to his retirement at the Annual General Meeting on October 21, 2004. Mr. Bruce Rathie was appointed a Director at the Annual General Meeting on October 21, 2004 and continues in office at the date of this report.

Executives (other than directors) with the greatest authority for strategic direction and management

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position	Employer
Andrew Smith	Chief Operating Officer (Resigned from the Company subsequent to year end, effective August 24, 2005)	Compumedics Limited
David Lawson	Chief Financial Officer and Company Secretary	Compumedics Limited
Warwick Freeman	Chief Technology Officer	Compumedics Limited
David Loiterton	General Manager, Sales and Marketing (from 1 July 2004-31 March 2005)	Compumedics Limited
Stephen Sands	Chief Scientist (from 1 July 2004-13 May 2005)	Compumedics USA Limited
Christoph Witte	Managing Director, DWL (from 1 Sept 2004- 30 June 2005)	Compumedics Germany GmbH

All of the above persons were also specified executives during the year ended 30 June 2004 except for Christoph Witte.

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

During the 2005 financial year the following executives were employed:

Anthony Curro	Vice President Sales, Americas
Tom Lorick	Vice President Marketing, Americas
Paul Spooner	Business Director EMEA

All of these senior executives were employed late in the financial year ended June 2005 and therefore were not in a position to influence the strategic direction of the group in the year ended 30 June 2005.

For remuneration classification purposes, senior managers are ranked in terms of their overall ability to significantly influence the results of the group in the financial year. This ability is not directly related to remuneration levels and therefore some senior managers may earn more than others but have less ability to influence the overall strategic direction of the group.

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2004. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

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

Retirement allowances for directors

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

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the Compumedics Limited Employee Option Plan, and
- other remuneration such as superannuation

The combination of these comprises the executive's total remuneration. The Company intends to introduce long-term equity linked incentives specifically for the Executive Chairman during the year ending 20 June 2006.

Base pay

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

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

There are no guaranteed base pay increases fixed in any senior executives' contract.

Benefits

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

Retirement benefits

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

Short-term incentives

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

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

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

For the year ended 30 June 2005, the KPIs linked to short term incentive plans were based on group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the senior executive team.

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

The STI target annual payment is reviewed annually. As the Company did not achieve its profit goals in the current financial year, no senior executive has received any short-term incentives related to the Company's current financial year performance. David Loiteron's bonus was based on prior year performance.

Compumedics Employee Option Plan

Information on the Compumedics Option Plan is set out in Note 29 of the Financial Statements.

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of directors and executives (continued)

Details of remuneration

Details of the remuneration of each director of Compumedics Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Compumedics Limited

Name	Primary			Post-employment		Equity	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
2005							
David Burton	341,550	—	—	—	—	—	341,550
Koichiro Koike	135,576	—	—	2,285	—	—	137,861
Alan Anderson	37,500	—	—	—	—	—	37,500
Prof. Graham Mitchell	30,023	—	—	2,477	—	—	32,500
Bruce Rathie (Oct 04-June 05)	21,357	—	—	—	—	—	21,357
John Dyson (July 04-Oct 04)	17,500	—	—	—	—	—	17,500
Total	583,506	—	—	4,762	—	—	588,268
2004							
David Burton	330,000	—	—	—	—	—	330,000
Koichiro Koike	75,965	—	—	6,837	—	—	82,802
John Dyson	35,000	—	—	—	—	5,500	40,500
Prof. Graham Mitchell	30,023	—	—	2,477	—	—	32,500
Alan Anderson	37,500	—	—	—	—	—	37,500
Total	508,488	—	—	9,314	—	5,500	523,302

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Specified executives of the consolidated entity

Primary				Post-employment		Equity	
Name	Cash salary and fees \$	Cash bonus \$	Non- monetary benefits \$	Super- annuation \$	Retirement benefits \$	Options \$	Total \$
2005							
Stephen Sands (July 04 – May 05)	207,751	–	13,505	10,329	–	–	231,585
Warwick Freeman	191,818	–	–	14,017	–	–	205,835
David Lawson	188,370	–	–	16,380	–	–	204,750
Andrew Smith	186,300	–	–	16,200	–	–	202,500
David Loiterton (July 04 – Mar 05)	128,233	5,400	–	10,447	–	–	144,080
Christoph Witte (Sept 04 – June 05)	114,095	–	–	20,644	–	–	134,739
Total	1,016,567	5,400	13,505	88,017	–	–	1,123,489
2004							
Warwick Freeman	161,731	–	17,485	14,556	–	–	193,772
David Lawson	184,665	–	–	16,380	–	–	201,045
Andrew Smith	179,891	–	–	16,190	–	–	196,081
David Loiterton	140,308	10,000	15,000	13,476	–	7,500	186,284
Jeff Kuznia	172,205	9,895	10,150	–	–	–	192,250
Stephen Sands	255,182	–	–	–	–	–	255,182
Daniel Moore (July 03 – Apr 04)	160,830	–	7,577	–	–	–	168,407
Total	1,254,812	19,895	50,212	60,602	–	7,500	1,393,021

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Service agreements

Remuneration and other terms of employment for the specified executives are formalised in service agreements or letters of offer. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including car allowances, and participation, when eligible, in the Compumedics Limited Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below:

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2005 of \$341,550, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2004
- David Burton does not have a formal service agreement.

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2005 of \$205,835, to be reviewed annually by the remuneration committee
- Car allowance of \$30,626
- Review of last salary – 1 July 2004
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of \$204,750, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2004
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Andrew Smith, *Chief Operating Officer*

- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$202,500
- Review of last salary – 1 July 2004
- Andrew Smith has resigned subsequent to year end, effective 24 August 2005.

David Loiterton, *General Manager Sales and Marketing (1 July 2004 – 31 March 2005)*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2005 of \$150,000
- Car Allowance of \$11,993
- Bonus of \$5,400 based on Rest of World revenue and profit budget numbers
- Review of last salary – 1 July 2004
- David Loiterton resigned effective 31 March 2005.

Stephen Sands, *Chief Scientist (1 July 2004 – 13 May 2005)*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of USD178,500.
- Insurance Paid of USD10,153
- Dr Sands resigned effective 13 May 2005.

Christoph Witte, *Managing Director, DWL (from 1 September 2004 – 30 June 2005)*

- Base salary inclusive of superannuation, for the year ended 30 June 2005 of EUR92,405, to be reviewed annually by the remuneration committee.
- Car Allowance of EUR2,950
- Christoph Witte's service agreement commences 1 September 2004 with a 2 year fixed notice period until 1 September 2005, after which the notice period reduces proportionately to six months at 1 September 2007.

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Equity instrument disclosures relating to directors and executives

Options provided as remuneration

There were no options provided as remuneration during the current year. Further information on options is set out in Note 29.

Option Holdings

The number of options held over ordinary shares in the company held during the financial year by each director of Compumedics Limited and each of the specified executives in the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at start of the year	Granted during the year	Exercised during the year	Retired during the year	Balance at end of the year	Vested and exercisable at end of the year
Directors of Compumedics Limited						
David Burton	292,645	—	—	—	292,645	292,645
Koichiro Koike	660,000	—	—	—	660,000	330,000
John Dyson (July 04 – Oct 04)	216,000	—	—	—	216,000	133,000
Prof Graham Mitchell	66,000	—	—	—	66,000	33,000
Alan Anderson	86,000	—	—	—	86,000	53,000
Bruce Rathie (Oct 04 – June 05)	—	—	—	—	—	—
Specified executives of the consolidated entity						
Warwick Freeman	660,000	—	—	—	660,000	330,000
David Lawson	660,000	—	—	—	660,000	330,000
Andrew Smith	100,000	—	—	—	100,000	100,000
David Loiterton	50,000	—	—	50,000	—	—
Stephen Sands (July 04 – May 05)	—	—	—	—	—	—
Christoph Witte (Sept 04 – June 05)	—	—	—	—	—	—

Mr Bruce Rathie was offered 20,000 options on his appointment as a non-executive director of Compumedics Limited, for which approval will be sought at the annual general meeting on 27th October 2005.

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Equity instrument disclosures relating to directors and executives (continued)

Share Holdings

The number of shares in the company held during the financial year by each director of Compumedics Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Compumedics Limited				
Ordinary Shares				
David Burton	87,761,608	—	—	87,761,608
Koichiro Koike	—	—	—	—
John Dyson (July 04 – Oct 04)	120,000	—	120,000*	—
Prof Graham Mitchell	—	—	—	—
Alan Anderson	25,000	—	—	25,000
Bruce Rathie (Oct 04 – June 05)	—	—	10,000**	10,000
Specified executives of the consolidated entity				
Ordinary Shares				
Warwick Freeman	82,000	—	—	82,000
David Lawson	180,000	—	50,000**	230,000
Andrew Smith	—	—	—	—
David Loiterton	—	—	—	—
Stephen Sands (Jul 04 – May 05)	—	—	—	—
Christoph Witte (Sept 04 – June 05)	—	—	—	—

* John Dyson held 120,000 shares upon resignation as a director on 21 October 2004. These shares were subsequently disposed of on market.

** The shares were purchased on market and do not form part of remuneration. They were purchased in accordance with the Company's share trading policy noted on page 42.

Loans to directors and executives

Details of loans made to directors of Compumedics Limited and the specified of the consolidated entity, including their personally-related entities, are set out below:

Aggregates for directors and specified executives

2005 Group	Balance at start of the year	Interest paid and payable for the year	Interest not charged	Balance at end of the year	Number in group at end of the year
	\$	\$	\$	\$	
Directors of Compumedics Limited	204,777	5,077	—	209,854	1
Specified executives of the consolidated entity	—	—	—	—	—

Individuals with loans over \$100,000 during the financial year

2005 Name	Balance at start of the year	Interest paid and payable for the year	Interest not charged	Balance at end of the year	Highest indebtedness during the year
	\$	\$	\$	\$	\$
Director					
David Burton	204,777	5,077	—	209,854	209,854

Loans outstanding at the end of the year represents a prepayment of bonuses, anticipated to be recouped via the achievement of specific goals related to projects undertaken in Medical Innovations. It is expected the achievement of the specific goals will occur in the next two years.

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

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Other transactions with directors and specified executives

Directors of Compumedics Limited

Other transactions with Directors and Director-related entities are outlined in Note 30 – Related Parties.

	Consolidated		Parent	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 26. REMUNERATION OF AUDITORS

During the year the following services were paid to the auditor of the parent entity, its related practices and non-related audit firms:

AUDIT SERVICES

Audit or review of the financial reports for the entity or any entity in the consolidated entity

PricewaterhouseCoopers Australian Firm	145,500	100,000	145,500	100,000
Related Practices of PricewaterhouseCoopers Australian Firm	38,000	25,000	–	–
TOTAL	183,500	125,000	145,500	100,000

TAXATION AND OTHER SERVICES

PricewaterhouseCoopers Australian Firm	23,287	21,350	23,287	21,350
Related Practices of PricewaterhouseCoopers Australian Firm	14,499	15,724	–	–
TOTAL	37,786	37,074	23,287	21,350

NOTE 27: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2005 in respect of:

Claims

Equal opportunity claims for unspecified damages are in progress against the company. The company has disclaimed liability and will be vigorously defending the claim upon investigation by the Equal Opportunity Commission. At 30 June 2005 it was not practical to estimate the potential effect of these claims.

Litigation

During the period the company lodged a claim for non-performance against one of its European distributors.

A counter-claim was lodged by the European distributor against the company. The company has disclaimed liability and is defending the action.

It is not practical to estimate the potential effect of this litigation, but the directors are confident that the company's claim will be successful.

Contingent assets

The parent entity and consolidated entity did not identify any contingent assets at 30 June 2005.

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 28. COMMITMENTS FOR EXPENDITURE				
OPERATING LEASES				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,145,016	759,409	475,204	390,110
Later than one year but not later than 5 years	2,408,409	1,412,225	1,063,283	546,250
Commitments not recognised in the financial statements	3,553,425	2,171,634	1,538,487	936,360
FINANCE LEASES				
Commitment in relation to finance leases are payable as follows:				
Within one year	221,338	—	221,338	—
Later than one year but not later than 5 years	156,482	—	156,482	—
Minimum lease payments	377,820	—	377,820	—
Less: Future finance charges	(63,041)	—	(63,041)	—
Total	314,779	—	314,779	—
Representing lease liabilities				
Current (Note 15)	183,299	—	183,299	—
Non-current (Note 19)	131,480	—	131,480	—
Total	314,779	—	314,779	—
NOTE 29: EMPLOYEE ENTITLEMENTS				
Current annual leave (note 14)	749,446	491,471	517,265	368,225
Current long service leave (note 17)	200,804	10,478	200,804	10,478
Non-current long service leave (note 20)	114,633	197,632	114,633	197,632
Aggregate employee entitlement liability	1,064,883	699,581	832,702	576,335
Employee numbers				
	Number		Number	
Average number of employees during the financial year	162	118	64	68

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 29. EMPLOYEE ENTITLEMENTS (CONTINUED)

Compumedics Limited Employee Option Plan

Consolidated and parent entity – 2005

Grant date	Expiry date	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
			Number	Number	Number	Number	Number
21-Dec-00	21-Dec-05	0.50	4,663,000	–	–	(270,000)	4,393,000
4-Jun-01	4-Jun-06	0.89	10,000	–	–	–	10,000
1-Aug-01	1-Aug-06	0.60	10,000	–	–	–	10,000
30-Sep-01	30-Sep-06	0.56	22,500	–	–	–	22,500
31-Oct-01	31-Oct-06	0.71	70,423	–	–	–	70,423
1-Dec-01	1-Dec-06	0.65	10,000	–	–	–	10,000
31-Dec-01	31-Dec-06	0.84	22,500	–	–	–	22,500
6-Mar-02	6-Mar-07	0.55	20,000	–	–	–	20,000
31-Mar-02	31-Mar-07	0.59	22,500	–	–	–	22,500
4-Jun-02	4-Jun-07	0.41	22,500	–	–	–	22,500
20-Dec-02	20-Dec-07	0.01	222,222	–	–	–	222,222
8-Sep-03	8-Sep-08	0.43	50,000	–	–	(50,000)	–
11-Mar-04	11-Apr-09	0.31	50,000	–	–	–	50,000
Total			5,195,645	–	–	(320,000)	4,875,645

Consolidated and parent entity – 2004

Grant date	Expiry date	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
			Number	Number	Number	Number	Number
21-Dec-00	21-Dec-05	0.50	5,023,000	–	–	(360,000)	4,663,000
1-Mar-01	1-Mar-06	0.95	10,000	–	–	(10,000)	–
4-Jun-01	4-Jun-06	0.89	10,000	–	–	–	10,000
1-Aug-01	1-Aug-06	0.60	10,000	–	–	–	10,000
30-Sep-01	30-Sep-06	0.56	22,500	–	–	–	22,500
31-Oct-01	31-Oct-06	0.71	70,423	–	–	–	70,423
1-Dec-01	1-Dec-06	0.65	10,000	–	–	–	10,000
31-Dec-01	31-Dec-06	0.84	22,500	–	–	–	22,500
6-Mar-02	6-Mar-07	0.55	20,000	–	–	–	20,000
31-Mar-02	31-Mar-07	0.59	22,500	–	–	–	22,500
4-Jun-02	4-Jun-07	0.41	22,500	–	–	–	22,500
20-Dec-02	20-Dec-07	0.01	222,222	–	–	–	222,222
8-Sep-03	8-Sep-08	0.43	–	50,000	–	–	50,000
11-Mar-04	11-Apr-09	0.31	–	50,000	–	–	50,000
Total			5,465,645	100,000	–	(370,000)	5,195,645

Options under the plan are granted for no consideration.

Options are granted for a five year period. Options under the plan carry no dividend or voting rights.

NOTE 30. RELATED PARTIES

Directors and specified executives

Disclosures relating to directors and specified executives are set out in Note 25.

Wholly-owned group

The wholly-owned group consists of Compumedics Limited and its wholly-owned controlled entities, Compumedics Telemed Pty Ltd., Compumedics Neuro Science Pty Ltd, Compumedics Cardiology, Compumedics USA Inc, Compumedics USA Ltd (formerly Neuroscan Ltd.), Compumedics Germany GmbH., and Compumedics Singapore Pte Ltd. Ownership interests in these controlled entities are set out in note 31.

Transactions between Compumedics Limited and other entities in the wholly owned group during the years ended 30 June 2005 and 2004 consisted of:

- (a) Loans advanced by Compumedics Limited
- (b) Loans repaid to Compumedics Limited
- (c) Sales between Compumedics Limited and Compumedics USA Ltd are at a cost that is representative of a third party distribution agreement
- (d) Compumedics Singapore Pte Ltd and Compumedics Germany GmbH charged commissions, at a mark up of 5% of running costs of those entities
- (e) Recharge of research and development expenditure between Compumedics USA Ltd and Compumedics Limited at cost.

Other transactions with Directors and Director-related entities

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

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

	Consolidated		Parent entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Aggregate amounts receivable from entities in the wholly-owned group at balance date:				
Non-current receivables	—	—	7,464,430	5,661,721
Aggregate amounts of each of the above types of other transactions with Directors and their Director-related entities:				
Legal fees	545,694	476,624	322,119	374,403
Aggregate amounts receivable from Directors and their Director-related entities:				
Current receivables	209,854	204,777	209,854	204,777
Current payables	251,011	146,845	251,011	146,845

Controlling entities

The ultimate parent entity in the wholly-owned group is Compumedics Limited. Ownership interests in the controlled entities are set out in note 31.

NOTE 31. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	Country of incorporation	Class of shares	Equity holding		Cost of parent entity's investment	
			2005 %	2004 %	2005 \$	2004 \$
Compumedics Telemed Pty Ltd.	Australia	Ordinary	100	100	7,083,052	7,083,052
Compumedics Neuro Science Pty Ltd.	Australia	Ordinary	100	100	2	2
Compumedics Cardiology Pty Ltd.	Australia	Ordinary	100	100	2	2
Compumedics USA Inc.	USA	Ordinary	100	100	-	-
Compumedics Singapore Pte Ltd.	Singapore	Ordinary	100	100	106,872	106,872
Compumedics USA Ltd. (formerly Neuroscan Ltd.)	USA	Ordinary	100	100	199	199
Compumedics Germany GmbH.	Germany	Ordinary	100	100	434,776	41,213
					7,624,903	7,231,340
Less provision for diminution					(7,083,050)	(7,083,050)
TOTAL					541,853	148,290

Acquisition of controlled entities

On 1 September 2004, Compumedics Germany GmbH acquired the trade and assets of DWL. An additional \$393,563 (225,000 Euro) of equity funding was provided to Compumedics Germany GmbH (2004: \$41,213 (25,000 Euro)) during the acquisition process. Details of the acquisition are as follows:

Acquisition of DWL – 2005

The fair value of the identifiable net assets acquired were:

Inventory	912,913
Property, Plant and Equipment	137,776
Employee leave entitlements	(172,415)
	878,274

Intellectual Property acquired	1,743,874
Total consideration:	2,622,148
Less Non cash consideration	-
Cash consideration	2,622,148

The cash consideration is represented by:

Amount payable to the ANZ banking corporation	2,622,148
TOTAL	2,622,148

During 2005, the acquisition of DWL was funded through borrowings from the ANZ banking corporation. The details surrounding these borrowings are reflected in Note 15 and Note 19.

NOTE 32. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report the Directors are not aware of any events occurring after the reporting date that would materially alter this report.

NOTE 33. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
Profit/(Loss) from ordinary activities after income tax	(3,897,660)	2,396,683	(2,573,922)	2,570,073
Depreciation and Amortisation	996,374	460,032	365,918	330,903
Exchange Gains on Loan payables	—	(383,264)	—	(383,264)
Doubtful Debts	115,128	(234,987)	62,710	53,366
Gain on disposal of non-current assets	—	(5,500)	—	(5,500)
Non-current assets written off	20,105	—	—	—
CHANGE IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY				
Decrease (Increase) in trade debtors & bills of exchange	(1,233,099)	(1,380,234)	(1,077,637)	(1,040,422)
Decrease (Increase) in inventories	1,431,908	1,935,032	345,017	1,094,853
Decrease (Increase) in income tax receivables	—	77,975	—	77,975
Decrease (Increase) in other operating assets	(357,773)	33,182	46,656	(13,499)
(Decrease) Increase in trade creditors	2,781,703	(505,428)	1,112,150	(740,082)
(Decrease) Increase in other operating liabilities	(350,945)	151,285	(222,563)	92,050
(Decrease) Increase in provision for income taxes payable	21,185	2,846	—	—
(Decrease) Increase in other provisions	106,484	81,659	120,827	45,787
Net Cash Inflow / (Outflow) from Operating Activities	(366,590)	2,629,281	(1,820,844)	2,082,240

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 34: EARNINGS PER SHARE

	Consolidated	
	2005 Cents	2004 Cents
Basic earnings per share	(2.8)	1.7
Diluted earnings per share	(2.8)	1.7
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	(1.8)	2.1
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	(1.8)	2.1
	Consolidated	
	2005 Number	2004 Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	140,000,000	140,000,000
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	140,000,000	140,215,767
Reconciliation of earnings used in calculating earnings per share		
The numerator used in calculation of both Basic EPS and Diluted EPS is a loss of \$3,897,660 and there are no reconciling items to the profit from ordinary activities after income tax expense.		
Reconciliation of earnings used in calculating alternative earnings per share		
	Consolidated	
	2005 \$	2004 \$
Profit/(Loss) from ordinary activities after income tax expense	(3,897,660)	2,396,683
Amortisation of intellectual property	383,241	—
Depreciation	613,133	460,032
Borrowings expense	549,366	267,888
Interest revenue	(209,897)	(195,818)
Tax expense (benefits)	704	12,373
	(2,561,113)	2,941,158

Options

Options that have been granted are considered to be potential ordinary shares, however, in the current year, their conversion to ordinary shares does not increase the profit/loss per share, as such the options are not dilutive and have not been included in the determination of diluted earnings per share. In the prior year, the effect of options with an exercise price below the average market price for the year of 34 cents have been included in the calculation of diluted earnings per share and diluted earnings per share based on earnings before interest, tax, depreciation and amortisation. The options have not been included in the determination of basic earnings per share. Detail of options are set out in Note 29.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2005

In the directors' opinion:

- (a) the financial statements and notes set out on pages 43 to 78 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with *Accounting Standards, the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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



D Burton

Director

Melbourne

19 September 2005

PricewaterhouseCoopers
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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COMPUMEDICS LIMITED

AUDIT OPINION

In our opinion, the financial report of Compumedics Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Compumedics Limited and the Compumedics Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Compumedics Limited (the company) and the Compumedics Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
19 September 2005

Shareholders' Information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 2 September, 2005.

SHAREHOLDINGS

Substantial Shareholders

Name	Number of ordinary shares held	%
D & DJ Burton Holdings Pty Ltd	89,761,608	64.1
Teijin Limited	8,293,698	5.9
AMP Life Limited	3,196,173	2.3
Total		72.3

D & DJ Holdings Pty Ltd hold Compumedics shares totalling 87,761,608 and Electro Molecular Pty Ltd hold Compumedics shares totalling 2,000,000. These entities are both 100% owned by the Burton family.

Distribution of Shareholders

Category	Number of shareholders
1 – 1,000	114
1,001 – 5,000	578
5,001 – 10,000	397
10,001-100,000	543
100,001 and over	61
Total	1,693

301 shareholders hold less than a marketable parcel.

Voting rights

All ordinary shares carry one vote per share without restriction. The options carry no voting rights.

Unquoted equity securities	Number of issue	Number of holders
Options issued under the Compumedics Employee Share Option Plan to take up ordinary shares	4,875,645	49

Shareholders' Information

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	%
D & DJ Burton Holdings Pty Ltd	87,761,608	62.7
Teijin Limited	8,293,698	5.9
AMP Life Limited	3,196,173	2.3
Electro Molecular Pty Ltd	2,000,000	1.4
Mr. John Steven Lundgren	1,761,889	1.3
Sandhurst Trustees Limited	1,158,178	0.8
Mr. Gregory Charles Anderson & Mrs. Karen Rosina Anderson	935,000	0.7
Mr. Graeme Edmund Moir	861,000	0.6
Australian United Investment	750,000	0.5
Minnett Nominees Pty Ltd	700,000	0.5
Mrs. Joan Elaine Steel	570,000	0.4
Wigram Trading Pty Limited	560,300	0.4
Southam Investments 2003 Pty Ltd	552,000	0.4
ANZ Nominees Limited	535,000	0.4
Australian Tourist Park Management Pty Ltd	516,446	0.4
Mr. Paul Henry Golding	500,000	0.4
Dr. Russell Kay Hancock	500,000	0.4
Summit Twenty-Five Pty Ltd	500,000	0.4
Mr. Lance Peter Thomas	419,801	0.3
Mr. Ken Whitton	415,801	0.3

The 20 largest shareholders hold 80.3% of the ordinary shares of the Company

Glossary

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

Glossary of Defined Terms

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

Glossary of Medical Terms

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

Corporate Directory

BOARD OF DIRECTORS

Mr David Burton

Mr Koichiro Kolke

Mr John Dyson

Professor Graham Mitchell

Mr Alan Anderson

Company Secretary

Mr David Lawson

EXECUTIVE TEAM

Executive Chairman, CEO

Mr David Burton

Chief Financial Officer

Mr David Lawson

Chief Technology Officer

Mr Warwick Freeman

General Manager Americas

David Viele

Vice President – Sales, Americas

Anthony Curro

Vice President, Marketing Americas

Tom Lorick

General Managing Director DWL
Compumedics Germany GmbH

Christoph Witte

Business Director EMEA

Paul Spooner

Chief Representative
Compumedics Tokyo Office

Mr Koichiro Kolke

Business Director, Australia
and New Zealand

Andrew Kegele

Business Director, Asia and
South American

Tim Gresham

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

30-40 Flockhart Street
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Telephone: (03) 8420 7300

AUDITOR

PricewaterhouseCoopers
Chartered Accountants
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
Melbourne VIC 3001

SHARE REGISTERS

ASX Perpetual Registrars Limited
Level 4
333 Collins Street
Melbourne VIC 3000
Phone: 1300 554 474

SOLICITORS

Freehills
Level 48
101 Collins Street
Melbourne VIC 3000

Corrs Chambers Westgarth
600 Bourke Street
Melbourne VIC 3000

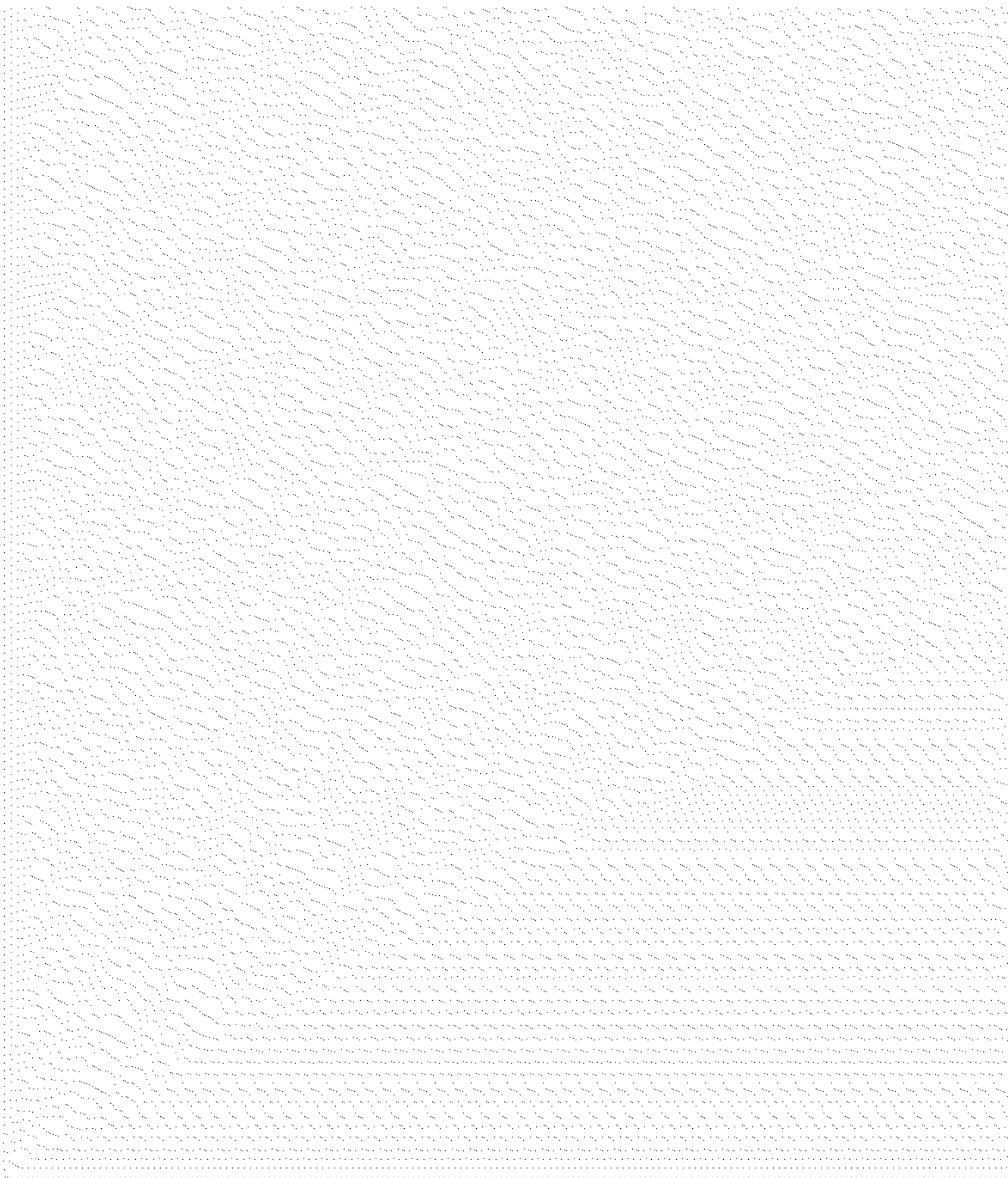
Fulbright & Jaworski L.L.P.
2100 IDS Centre
80 South Eighth Street
Minneapolis, MN 552402
Phone: +1-612-321-2800
Facsimile: +1-612-321-9600

BANKERS

Australia and New Zealand Banking Group Limited
Level 6
287 Collins Street
Melbourne VIC 3000

STOCK EXCHANGE LISTINGS

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





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