

# **COMPUMEDICS LIMITED**

(ACN 006 854 897)

## **ASX Half-year information – 31 December 2005**

Lodged with the ASX under Listing Rule 4.2A.3

This information should be read in conjunction with the  
30 June 2005 Annual Report.

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**Compumedics Limited**  
**Half Year ended 31 December 2005**  
(Previous corresponding period:  
Half Year ended 31 December 2004)

**Results for Announcement to the Market**

				<b>\$'000</b>
<b>Revenue</b> from ordinary activities <i>(Appendix 4D item 2.1)</i>	up/down	(7)%	to	\$18,054
<b>Profit/(loss)</b> from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.2)</i>	up/down	603%	to	\$(3,021)
<b>Net profit/(loss)</b> for the period attributable to members <i>(Appendix 4D item 2.3)</i>	up/down	603%	to	\$(3,021)

<b>Dividends/distributions</b> <i>(Appendix 4D item 2.4)</i>	Amount per security	Franked amount per security
Final dividend (prior year)	n/a	n/a

**Record date** for determining entitlements to the dividend  
*(Appendix 4D item 2.5)*

n/a
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**Explanation of Revenue** *(Appendix 4D item 2.6)*

Revenues declined by 7.0% from \$19.4m to \$18.1m primarily as a consequence of the slower turnaround in sales in the US business in both the sleep and brain research (Neuroscan) business units following the restructuring done within each business in the middle of calendar 2005. Declines in the US business units were 24% and 35% respectively.

Offsetting the performance in the US business were solid improvements in the other geographic territories.

The Australian business grew sales by 10% over the same 6 month period last year. The Asian business grew sales excluding Japan by 67% over the same 6 month period last year and the European business grew sales by 30% over the same 6 month period last year.

The DWL business grew revenues by 7% over the same 6 month period last year.

**Explanation of Profit/(loss) from ordinary activities after tax** *(Appendix 4D item 2.6)*

Losses were impacted by the slower turnaround in US sales as explained above and by the booking of one-off and non-recurring expenses in the period. The expenses were impacted by legal fees resulting from the legal dispute with the company's former distributor in Europe. Legal costs booked in the period for this activity amounted to approximately \$0.8m. As announced this legal case has been resolved and the company will book proceeds from the settlement of approximately \$2.0m (USD1.45m) as other income in the second half of the financial year.

The company also booked other fees and charges that it does not expect to incur in the second half of approximately \$0.2m.

In addition to these one-off expenses the company has reduced its operating expenses since the last reporting date by approximately \$3.4m on an annualised basis. It is expected that these expense reductions will positively impact earnings before interest and tax by approximately \$1.4m in the second half of the financial year through to June 30, 2006.

Explanation of Dividends (*Appendix 4D item 2.6*)

No dividends have been declared or paid in the period.

**Compumedics Limited**  
**Half Year report - 31 December 2005**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Compumedics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' Report Interim Report – 31 December 2005

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 half-year ended 31 December 2005.

### Directors

The following persons were directors of Compumedics Limited during the whole of the half-year and up to the date of this report.

Mr. D. Burton  
Mr. A. Anderson  
Mr. B. Rathie  
Prof. G. Mitchell

Mr. Koichiro Koike resigned as a Director of the company as at 30 September, 2005.

### Review of Operations

A summary of consolidated revenues and results for the half year is set out below:

	6 mths ended Dec 2005	6 mths ended Dec 2004
Operating revenue (A\$'000)	18,054	19,402
Loss before interest and tax (A\$'000)	(2,682)	(190)
Losses for the half year (A\$'000)	(3,021)	(430)
Losses per share (cents)	(2.16)¢	(0.01)¢
Diluted losses per share (cents)	(2.16)¢	(0.01)¢

Comments on the operations are as follows:

### **Regional Performance**

The business generated sales of \$18.1m for the first 6 months of the financial year to December 31, 2005. This compares to \$19.4m in revenues for the same time last year or a 7% decline, all of which is attributable to a slower than anticipated turnaround in USA sales for both the sleep and brain research (Neuroscan) business units following the restructuring completed there in the middle of calendar 2005.

The USA clinical (sleep) business finished 24% below revenues for the same period last year. The USA research business finished 35% below revenues for the same six month period last year.

The business took orders for the 6 months to December 31, 2005 of \$18.7m and with prior carry forward orders was holding about \$1.2m in open orders at December 31, 2005 that will ship in early 2006.

Countering the slower turnaround in the USA sales performance were good performances by the rest of world businesses where the Australian business revenues finished approximately 10% higher than for the same six months last year. Rest of Asia business revenues, excluding Japan, finished approximately 67% higher than for the same six months last year, whilst European business revenues finished approximately 30% higher than for the same six months last year. These results clearly demonstrate improving environments for the business in these parts of the world as a consequence of the restructuring done in June/July 2005 and the contribution of the new resources bought in at that time to these business areas.

### **Events subsequent to reporting date**

On January 11, 2006 Compumedics reached settlement over a contractual dispute with its former European distributor for sleep equipment.

The settlement agreement will result in USD1.45m cash being booked as other income in the trading results for the company in January, 2006. The cash was received on February 8, 2006.

### **Rounding of amounts to nearest thousand dollars**

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

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

### **Auditors' Independence**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.



D. Burton  
Executive Chairman

Melbourne  
16 March, 2006

## **Auditors' Independence Declaration**

As lead auditor for the review of Compumedics Limited for the half year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Anton Linschoten  
Partner  
PricewaterhouseCoopers

Melbourne  
16 March 2006

**Compumedics Limited**  
**Consolidated income statement**  
**for the half year ended 31 December 2005**

	Half Year 2005 \$'000	Half Year 2004 \$'000
<b>Revenue from continuing operations</b>		
Revenue from sale of goods and services	18,054	19,402
	<b>18,054</b>	<b>19,402</b>
<b>Expenses</b>		
Cost of sales	(7,998)	(8,348)
Administration	(3,314)	(2,698)
Sales & Marketing	(5,173)	(4,121)
Research & Development	(3,718)	(3,430)
Borrowing costs	(336)	(238)
Depreciation & Amortisation Charge	(535)	(437)
Net foreign exchange gain / (loss)	2	(558)
<b>Losses before income tax</b>	<b>(3,018)</b>	<b>(428)</b>
Income tax expense	(3)	(2)
<b>Losses for the half year</b>	<b>(3,021)</b>	<b>(430)</b>
Losses attributable to members of Compumedics Limited	(3,021)	(430)
<b>Losses per share for losses from continuing operations attributable to the ordinary equity holders of the company (cents):</b>		
Basic	(2.16)¢	(0.01)¢
Diluted	(2.16)¢	(0.01)¢

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



**Compumedics Limited**  
**Consolidated balance sheet**  
**as at 31 December 2005**

	31 Dec 2005 \$'000	30 June 2005 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,579	3,922
Receivables	11,994	11,239
Inventories	6,135	5,962
Other	142	426
<b>Total current assets</b>	<b>20,850</b>	<b>21,549</b>
<b>Non current assets</b>		
Receivables	-	119
Property, plant and equipment	1,426	1,521
Intangible assets	-	252
<b>Total non current assets</b>	<b>1,426</b>	<b>1,892</b>
<b>Total assets</b>	<b>22,276</b>	<b>23,441</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	8,700	7,456
Interest bearing liabilities	6,089	5,806
Current tax liabilities	81	72
Provisions	569	535
Other	964	1,178
<b>Total current liabilities</b>	<b>16,403</b>	<b>15,047</b>
<b>Non current liabilities</b>		
Interest bearing liabilities	368	130
Provisions	119	115
Other	11	10
<b>Total non current liabilities</b>	<b>498</b>	<b>255</b>
<b>Total liabilities</b>	<b>16,901</b>	<b>15,302</b>
<b>Net assets</b>	<b>5,375</b>	<b>8,139</b>
<b>EQUITY</b>		
Contributed equity	29,020	29,020
Reserves	(381)	(638)
Retained earnings	(23,264)	(20,243)
<b>Total equity</b>	<b>5,375</b>	<b>8,139</b>

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

**Compumedics Limited**  
**Consolidated statement of changes**  
**in equity for the half year**  
**as at 31 December 2005**

	<b>Half Year 2005 \$'000</b>	<b>Half Year 2004 \$'000</b>
Total equity at the beginning of the half year	8,139	13,837
Adjustment on the adoption of AASB121 net of tax:		
Reserves	-	(469)
Exchange differences on translation of foreign operations	257	-
<b>Net income/(losses) recognised directly in equity</b>	<b>257</b>	<b>(469)</b>
Losses for the half year	(3,021)	(430)
Total recognised income and expenses for year	(2,764)	(899)
Dividend paid	-	(700)
<b>Total equity at the end of the half year</b>	<b>5,375</b>	<b>12,238</b>

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

**Compumedics Limited**  
**Consolidated cash flow statement**  
**for the half year ended 31 December 2005**

	Half Year 2005 \$'000	Half Year 2004 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	17,516	19,300
Payments to supplies and employees (inclusive of goods and services tax)	(18,647)	(18,601)
	(1,131)	699
Interest received	78	120
Interest and other costs of finance paid	(336)	(175)
Income tax paid	-	-
<b>Net cash outflow from operating activities</b>	<b>(1,389)</b>	<b>644</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(31)	(131)
Payments for purchase of controlled entity, net of cash acquired	-	(2,579)
<b>Net cash outflow from investing activities</b>	<b>(31)</b>	<b>(2,710)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	257	2,622
Repayments of finance leases	(90)	(52)
Repayment of borrowings	(102)	(1,430)
Dividend Paid	-	(610)
<b>Net cash inflow (outflow) from financing activities</b>	<b>65</b>	<b>530</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,355)</b>	<b>(1,536)</b>
Cash and cash equivalents at the beginning of the half year	3,922	6,352
Effects of exchange rate changes on cash	12	(124)
Cash and cash equivalents at the end of the half year	2,579	4,692

\$2m of the above cash balance is restricted as part of the company's security arrangement with the ANZ Bank.

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Compumedics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### **(a) Basis of preparation of half-year financial report**

During the half year ended 31 December, 2005 the consolidated entity (Compumedics) incurred an operating loss of \$2,682,000 and experienced negative cash flows from operations of \$1,132,000 contributed to in part by Compumedics strategy and resolve to change and restructure the organisation to facilitate future sales growth. Part of the loss was also attributable to legal fees booked as an expense in relation to the dispute summarised in Note 5.

This past year has seen an aggressive implementation 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.

During the half year the company has begun to see the benefits of the restructuring carried out in the middle of calendar 2005 in Australia, Europe and Asia (excluding Japan). However it has yet to see significant gains in the US market which is taking longer to generate the returns expected.

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 the half year the company breached certain covenants in relation to its banking facilities. The bank has as part of its annual review renewed the company's facilities and has put in place new covenants. The revised facility was signed by the bank on March 16, 2006.

During this past reporting period and as the Company moves forward, the Company has been, and expects continued bank support as it works through this current strategy of restructuring for continued growth whilst focusing on restoring the profitability of the business. This support is evidenced by the Bank's willingness to renew the existing facility with new covenants referred to above. The company expects, based on its revised budgeting, financial performance so far this year and the existing sales pipelines, to be compliant with the renewed facility's requirements during the course of 2006. Such compliance is dependant, however, on the business not materially deviating from budgeted expectations.

The Company is also implementing a number of additional strategies in order to potentially raise capital or reduce costs should the need arise.

The Company expects to reduce its losses in the second half of this reporting period as a consequence of the reduction in costs and an improved US performance and return to profitability during calendar 2006.

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

The Company will also book other revenue of \$2m in the second half as a consequence of the settlement of its legal dispute with its former European distributor.

The Directors advise that they have agreed to issue a redeemable convertible note (RCN) to D&DJ Burton Holdings Pty Ltd (a company controlled by Mr Burton who is the major shareholder of Compumedics Limited) for a value of \$1m as part of the on-going financing for the business. This facility will be drawn down within 30 days of the date of this report. The conversion of the loan note to equity is contingent upon Shareholder approval, which is to be sought immediately prior to the next Annual General Meeting. Further details of this RCN are explained in Note 5.

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

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

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

### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This interim financial report is the first Compumedics Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Compumedics Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Compumedics Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 6.

### *Historical cost convention*

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the half-year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

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

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

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

### **(c) Segment reporting**

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

### **(d) Foreign currency translation**

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

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

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### *(iii) Group companies*

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### **(e) Revenue recognition**

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

In addition, the revenue recognition policy defers 12% (2004:20%) of revenue earned through sales to end user customers, until the post sale training and installation obligations have been completed, at which point in time the revenue is recognised.

### **(f) Income tax**

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

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

Compumedics Limited and its wholly-owned Australian controlled entities have yet to decide whether to implement the tax consolidation legislation.

### **(g) Leases**

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### **(h) Acquisitions of assets**

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

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

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



**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

### **(i) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### **(j) Cash and cash equivalents**

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

The company has as part of its security arrangements with the ANZ Bank a restricted \$2m cash deposit.

### **(k) Trade receivables**

Trade receivables are recognised at fair value less provision for doubtful debts. Trade receivables are generally due for settlement no more than 45 days from shipment of goods, except where an installation and training obligation exists. Typically these activities occur within 60 days of the shipment of goods.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### **(l) Inventories**

#### *Raw materials and stores, work in progress and finished goods*

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

### **(m) Property, plant and equipment**

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

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.

### **(n) Intangible assets**

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

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. No expenditure of this nature is currently capitalized.

### **(o) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

### **(p) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless group has an unconditional right to defer settlement.

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

## **1 Summary of significant accounting policies**

### **(q) Borrowing costs**

Borrowing costs are recognized 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.

### **(r) Provisions**

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

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

### **(s) Employee Benefits**

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

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

#### *(ii) Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *(iii) Share Based Payments*

*Shares options granted before 7 November 2002 and/or vested after 1 January 2005*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital

### **(t) Contributed equity**

Ordinary shares are classified as equity.

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2005**

**1 Summary of significant accounting policies**

**(u) Earnings per share**

*(i) Basic earnings per share*

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

**(v) Financial instrument transaction costs**

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the AGAAP comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

**(w) Rounding of amounts**

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 2. Segment information**

**Primary reporting – business segments**

**31 December 2005**

	Sleep	Neuroscan (Brain Research)	Neuroscience (Clinical EEG + DWL)	Supplies	Intersegment Elimination	\$'000 Group
<b>Total segment revenue</b>	6,987	4,944	4,256	2,040	(173)	18,054
<b>Unallocated revenue</b>						-
<b>Total revenue and other income</b>						18,054
<b>SEGMENT RESULT</b>	(853)	(499)	(1,042)	289		(2,105)
<b>Unallocated revenue less unallocated expenses</b>						(913)
<b>Profit before income tax</b>						(3,018)

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 2. Segment information**

**Primary reporting – business segments**  
**31 December 2004**

	Sleep	Neuroscan (Brain Research)	Neuroscience (Clinical EEG + DWL)	Supplies	Intersegment Elimination	<b>\$'000</b>
						<b>Group</b>
<b>Total segment revenue</b>	9,016	5,012	3,300	1,901	-	19,229
<b>Unallocated Revenue</b>						173
<b>Total revenue and other income</b>						19,402
<b>SEGMENT RESULT</b>	<b>(602)</b>	<b>(211)</b>	<b>59</b>	<b>(69)</b>	<b>-</b>	<b>(823)</b>
<b>Unallocated revenue less unallocated expenses</b>						(393)
<b>Profit before income tax</b>						<b>(428)</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 3. Business Combination**

**Current year**

Upon transition to AIFRS the company reviewed the carry value of the intellectual property at June 30, 2005 in relation to the acquisition of the DWL business. At that time and in accordance with AASB 136 the business reduced the carrying value of the intellectual property as described in Note 6.

**Prior Year**

On 1 September 2004 the company acquired the DWL business, a company that is involved in the development, manufacture and sale of Trans Cranial Doppler (TCD) products. The company is based in Singen Germany and was purchased by Compumedics German based subsidiary company, Compumedics Germany GmbH. At that time EUR1.5m was paid for the assets and intellectual property of the business. The acquisition price was debt funded and is repayable over a period up to six years. The operating results of this newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition.

Details of the acquisition are as follows:

	<b>\$'000</b>
Fair value of identifiable net assets of acquired	
Plant and equipment	138
Inventories	913
Leave provisions	(173)
Intellectual property	1,744
Cash consideration	2,622

**Note 4. Dividends**

	Parent entity	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Ordinary shares</b>		
Final dividend for the year ended 30 June 2004 of 0.5 cents (2003 – nil) per fully paid share paid December 20, 2004	Nil	700
Fully franked based on tax paid @ 30%		
Paid in cash	Nil	700
Satisfied by issue of shares	Nil	Nil

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 5. Events occurring after reporting date**

- (i) On January 11, 2006 Compumedics reached settlement over a contractual dispute with its former European distributor for sleep equipment.

The settlement agreement will result in USD1.45m cash being booked as other revenue in the trading results for the company in January, 2006. The cash was received on February 8, 2006.

- (ii) On March 16, 2006 the company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of \$1 million classified as debt.

The terms of this RCN issue are:

1. The RCNs carry a coupon rate of interest of 20%pa subject to shareholder approval in the event that the shareholders do not allow the convertibility of the RCNs. Otherwise the default coupon rate of interest is 14.5%.
2. The RCNs are convertible into ordinary issued equity of the company on the 1<sup>st</sup> and 2<sup>nd</sup> anniversary of their issue.
3. The RCNs have a 2 year life.
4. The conversion factor to be used if the holder elects to turn the RCNs into ordinary equity of the company is the average share price for 5 days immediately prior to the issue of the RCN.
5. The \$1m is payable within 30 days of the issue of the RCN.
6. The ability of the note holder to convert the RCN into ordinary equity of the company requires the approval of the shareholders. The approval of the shareholders is to be sought immediately prior to the next Annual General Meeting. As the note holder is a related party to the Company they will not be able to vote on the proposal. The consequences of approval not being given for conversion of the issue into ordinary shares of the company are that the RCNs are redeemable by the noteholder at the noteholder's discretion.



**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**

(a) At the date of transition to AIFRS: July 1, 2004.

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6,352	-	6,352
Receivables	10,239	-	10,239
Inventories	6,481	-	6,481
Other	69	-	69
<b>Total current assets</b>	<b>23,141</b>	<b>-</b>	<b>23,141</b>
<b>Non current assets</b>			
Receivables	-	-	-
Property, plant and equipment	1,368	-	1,368
Intangible assets	-	-	-
<b>Total non current assets</b>	<b>1,368</b>	<b>-</b>	<b>1,368</b>
<b>Total assets</b>	<b>24,509</b>	<b>-</b>	<b>24,509</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	4,614	-	4,614
Interest bearing liabilities	1,884	-	1,884
Current tax liabilities	55	-	55
Provisions	346	-	346
Other	1,330	108	1,438
<b>Total current liabilities</b>	<b>8,229</b>	<b>108</b>	<b>8,337</b>
<b>Non current liabilities</b>			
Interest bearing liabilities	2,122	-	2,122
Deferred tax liabilities	-	-	-
Provisions	198	-	198
Other	15	-	15
<b>Total Non Current Liabilities</b>	<b>2,335</b>	<b>-</b>	<b>2,335</b>
<b>Total liabilities</b>	<b>10,564</b>	<b>108</b>	<b>10,672</b>
<b>Net assets</b>	<b>13,945</b>	<b>(108)</b>	<b>13,837</b>
<b>EQUITY</b>			
Contributed equity	29,020	-	29,020
Reserves	-	(240)	(240)
Retained losses	(15,075)	132	(14,943)
<b>Total equity</b>	<b>13,945</b>	<b>(108)</b>	<b>13,837</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs**  
(continued).

(b) At the date of the last half-year reporting period under previous AGAAP:  
December 31, 2004.

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,692	-	4,692
Receivables	10,304	-	10,304
Inventories	7,665	-	7,665
Other	212	-	212
<b>Total current assets</b>	<b>22,873</b>	<b>-</b>	<b>22,873</b>
<b>Non current assets</b>			
Receivables	64	-	64
Property, plant and equipment	1,501	-	1,501
Investment properties	-	-	-
Deferred tax assets	-	-	-
Intangible assets	1,042	-	1,042
<b>Total non current assets</b>	<b>2,607</b>	<b>-</b>	<b>2,607</b>
<b>Total assets</b>	<b>25,480</b>	<b>-</b>	<b>25,480</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	5,529	-	5,529
Interest bearing liabilities	1,107	4,415	5,522
Current tax liabilities	67	-	67
Provisions	385	-	385
Other	951	112	1,063
<b>Total current liabilities</b>	<b>8,039</b>	<b>4,527</b>	<b>12,566</b>
<b>Non current liabilities</b>			
Interest bearing liabilities	4,908	(4,415)	493
Provisions	171	-	171
Other	12	-	12
<b>Total Non Current Liabilities</b>	<b>5,091</b>	<b>(4,415)</b>	<b>676</b>
<b>Total liabilities</b>	<b>13,130</b>	<b>112</b>	<b>13,242</b>
<b>Net assets</b>	<b>12,350</b>	<b>(112)</b>	<b>12,238</b>
<b>EQUITY</b>			
Contributed equity	29,020	-	29,020
Reserves	-	(709)	(709)
Retained earnings	(16,670)	597	(16,073)
<b>Total equity</b>	<b>12,350</b>	<b>(112)</b>	<b>12,238</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs**  
**(continued).**

(c) At the date of the last - reporting period under previous AGAAP:  
June 30, 2005.

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3,922	-	3,922
Receivables	11,239	-	11,239
Inventories	5,962	-	5,962
Other	426	-	426
<b>Total current assets</b>	<b>21,549</b>	<b>-</b>	<b>21,549</b>
<b>Non current assets</b>			
Receivables	119	-	119
Property, plant and equipment	1,521	-	1,521
Investment properties	-	-	-
Intangible assets	1,360	(1,108)	252
<b>Total non current assets</b>	<b>3,000</b>	<b>(1,108)</b>	<b>1,892</b>
<b>Total assets</b>	<b>24,549</b>	<b>(1,108)</b>	<b>23,441</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	7,456	-	7,456
Interest bearing liabilities	1,391	4,415	5,806
Current tax liabilities	72	-	72
Provisions	535	-	535
Other	1,078	100	1,178
<b>Total current liabilities</b>	<b>10,532</b>	<b>4,515</b>	<b>15,047</b>
<b>Non current liabilities</b>			
Interest bearing liabilities	4,545	(4,415)	130
Provisions	115	-	115
Other	10	-	10
<b>Total Non Current Liabilities</b>	<b>4,670</b>	<b>(4,415)</b>	<b>255</b>
<b>Total liabilities</b>	<b>15,202</b>	<b>100</b>	<b>15,302</b>
<b>Net assets</b>	<b>9,347</b>	<b>(1,208)</b>	<b>8,139</b>
<b>EQUITY</b>			
Contributed equity	29,020	-	29,020
Reserves	-	(638)	(638)
Retained earnings	(19,673)	(570)	(20,243)
<b>Total equity</b>	<b>9,347</b>	<b>(1,208)</b>	<b>8,139</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**  
(continued).

**AIFRS – Adjustment summary schedule**

	<b>31 December 04</b>		
	Previous AGAAP \$'000	AIFRS Adj \$'000	AIFRS \$'000
Revenues from the sale of goods and services	19,229		19,229
Cost of goods	(8,348)		(8,348)
<b>Gross Profit</b>	<b>10,881</b>	<b>-</b>	<b>10,881</b>
Other revenues from operating activities	173		173
Administration	(2,694)	(4)	(2,698)
Sales and marketing	(4,121)		(4,121)
Research and development	(3,430)		(3,430)
Borrowing costs	(238)		(238)
Depreciation charge	(437)		(437)
Net foreign exchange loss	(1,027)	469	(558)
<b>Profit / (loss) before income taxes</b>	<b>(893)</b>	<b>465</b>	<b>(428)</b>
Income tax expenses	(2)		(2)
<b>Profit / (loss) after income taxes</b>	<b>(895)</b>	<b>465</b>	<b>(430)</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**  
(continued).

**AIFRS – Adjustment summary schedule**

	<b>30 June 05</b>		
	Previous AGAAP \$'000	AIFRS Adj \$'000	AIFRS \$'000
Revenues from the sale of goods and services	38,157		38,157
Cost of goods	(17,864)		(17,864)
<b>Gross Profit</b>	<b>20,293</b>	-	<b>20,293</b>
Other revenues from operating activities	342		342
Administration	(5,019)	8	(5,111)
Sales and marketing	(10,323)		(10,323)
Research and development	(7,883)		(7,883)
Borrowing costs	(549)		(549)
Depreciation charge	-	(1,108)	(1,108)
Net foreign exchange loss	(758)	398	(360)
Impairment of asset			
<b>Profit / (loss) before income taxes</b>	<b>(3,897)</b>	<b>(810)</b>	<b>(4,699)</b>
Income tax expenses	(1)		(1)
<b>Profit / (loss) after income taxes</b>	<b>(3,898)</b>	<b>(810)</b>	<b>(4,700)</b>

Under the transition to Australian equivalent IFRS's no transitional cash flow has been prepared as there were no material differences to the statement of cash flows for Compumedics Limited resulting from the transition to AIFRS.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**  
**(continued).**

**AIFRS – Adjustment summary schedule**

**(i) Property Lease**

Pursuant with the requirements of AASB17 a restatement of lease expenses associated with the company's office facility in El Paso Texas is required as under the terms of the lease the annual increase in rents over the term of the lease are not based on CPI adjustments. As a consequence the company is required to charge lease payments associated with this lease on a straight line basis over the 5 year term of the lease.

The effect is:

**At July 1, 2004**

An increase in the retained losses of the business of \$108k and increase in other current liabilities of the same amount. This reflects the fact that the actual lease payments in the first two years of the lease were less than those in the last three years of the lease.

**At December 31, 2004**

An increase in the retained losses of the business of \$112k and increase in other current liabilities of the same amount.

**At June 30, 2005**

An increase in the retained losses of the business of \$100k and increase in other current liabilities of the same amount.

**For the half year ended 31 December 2004**

An increase in the loss of the business by \$4k.

**For the year ended 30 June 2005**

A reduction in the loss of the business by \$8k.

**(ii) Impairment of assets**

At the adoption of AIFRS at 1 July 2005, the company was obliged to review the carrying value of all its assets pursuant to AASB 136.

As a consequence of this review the carrying value of intellectual property acquired as a consequence of the acquisition of DWL. This is a result of comparing the net present value of the future cash flows that DWL is reasonably expected to generate with the carrying value of the asset.

The discounted cash flow valuation has been prepared using the guidelines in AASB 136. The cash flows do not take into account specific activities that the company has yet to formerly commit to that will support growth in cash inflows in future periods.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**  
**(continued).**

The effect is:

**At June 30, 2005**

An increase in the retained losses of the business of \$1,108k and reduction in intangible assets of the same amount.

**For the year ended 30 June 2005**

A increase in the loss of the business by \$1,108k.

**(iii) Foreign currency translation reserve**

Under AIFRS a cumulative foreign currency translation reserve was created for recognition of foreign currency translation gains and losses attributable to the conversion of the company's net investment in foreign operations.

The effect is:

**At July 1, 2004**

The foreign currency translation reserve was \$240k and retained losses were reduced by the same amount.

**At December 31, 2004**

The foreign currency translation reserve was \$709k and retained losses were reduced by the same amount.

**At June 30, 2005**

The foreign currency translation reserve was \$638k and retained losses were reduced by the same amount.

**For the half year ended 31 December 2004**

An reduction in the loss of the business by \$469k.

**For the year ended 30 June 2005**

An reduction in the loss of the business by \$398k.

**(iii) Classification of Liabilities**

Under AASB 101 presentation of Financial Statements liabilities are required to be classified as current when a 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.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2005**

**Note 6. Explanation of transition to Australian equivalent to IFRSs.**  
**(continued).**

The effect is:

**At December 31, 2004**

An increase in the current interest bearing liabilities of \$4,415k and a decrease of non current interest bearing liabilities for the same amount.

**At June 30, 2005**

An increase in the current interest bearing liabilities of \$4,415k and a decrease of non current interest bearing liabilities for the same amount.



**Compumedics Limited  
Directors' Declaration  
for the half year ended 31 December 2005**

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 31 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 consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half year ended on that date; and

(b) There are reasonable grounds to believe that Compumedics Limited will be able to pay its debts as and when they become due and payable.

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



David Burton  
Executive Chairman  
Melbourne  
16 March, 2006

## **Independent review report to the members of Compumedics Limited**

### **Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Compumedics Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Compumedics Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

### **Scope**

#### **The financial report and directors' responsibility**

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Compumedics Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Compumedics Limited (the company) and the entities it controlled during that half-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.

#### **Review approach**

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view

which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel,
- analytical procedures applied to financial data.

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

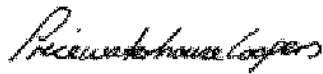
These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

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

### **Independence**

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



PricewaterhouseCoopers



Anton Linschoten  
Partner  
2006

Melbourne  
16 March

Liability limited by a scheme approved under Professional Standards Legislation

**Compumedics Limited**  
**Supplementary Appendix 4D information**  
**for the half year ended 31 December 2005**

**NTA Backing** *(Appendix 4D item 3)*

	2005	2004
Net tangible asset backing per ordinary share	4.0 cents	8.0 cents

**Additional dividend/distribution information**<sup>2</sup> *(Appendix 4D item 5)*

Details of dividends/distributions declared or paid during or subsequent to the year ended 31 December 2005 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Dividend/distribution reinvestment plans** *(Appendix 4D item 6)*

**NOT APPLICABLE**

**Compumedics Limited**  
**Supplementary Appendix 4D information**  
**for the half year ended 31 December 2005**

**Material factors affecting the revenues and expenses of the economic entity for the current period**

Revenues declined by 7.0% from \$19.4m to \$18.1m primarily as a consequence of the slower turnaround in sales in the US business in both the sleep and brain research (Neuroscan) business units following the restructuring done within each business in the middle of calendar 2005. Declines in the US business units were 24% and 35% respectively.

Offsetting the performance in the US business were solid improvements in the other geographic territories.

The Australian business grew sales by 10% over the same 6 month period last year. The Asian business grew sales excluding Japan by 67% over the same 6 month period last year and the European business grew sales by 30% over the same 6 month period last year.

The DWL business grew revenues by 7% over the same 6 month period last year.

**Material factors affecting the assets, liabilities and equity of the economic entity for the current period**

Material factors affecting the assets, liabilities and equity of the economic entity for the current period was the underlying trading performance of the business. As already noted the trading performance of the business was primarily impacted by the slower than previously expected turnaround in the US business.

**Material factors affecting the cash flows of the economic entity for the current period**

Material factors affecting the cash flows of the economic entity for the current period was the underlying trading performance of the business. As already noted the trading performance of the business was primarily impacted by the slower than previously expected turnaround in the US business.