

# **COMPUMEDICS LIMITED**

(ACN 006 854 897)

## **ASX final report – 30 June 2006**

Lodged with the ASX under Listing Rule 4.3A

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**Financial Report**  
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**Results for Announcement to the Market**

				<b>\$'000</b>
<b>Revenue</b> from ordinary activities <i>(Appendix 4E item 2.1)</i>	down	2%	to	37,605
<b>(Losses)</b> before interest, tax, depreciation and amortisation	reduced by	77%	to	(523)
<b>(Losses)</b> from ordinary activities after tax attributable to members <i>(Appendix 4E item 2.2)</i>	reduced by	65%	to	(1,595)
<b>Net (loss)</b> for the period attributable to members <i>(Appendix 4E item 2.3)</i>	reduced by	65%	to	(1,595)

<b>Dividends/distributions</b> <i>(Appendix 4E 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 4E item 2.5)*

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

Revenues for the second half of the financial year were stronger than the first half at \$19.5m compared to \$18.1m, or 7.7% higher over the first half year. This growth however was not enough to stop the group recording a small decline of 2% on the full year revenues this year compared to the same period last year, with full year revenues of \$37.6m compared to \$38.4m for the same period last year.

Europe, Asia and Australia all posted growth year on year, with respective growth rates being 40%, 51% and 2% over the same period last year.

The US business did not post growth year on year but did have a significantly stronger second half of the financial year reflecting the improving underlying performance of the business as a result of the changes made during 2005. The US business reported full year sales of USD10.7m compared to USD13.2m for the same period last year. The half year sales were USD5.8m in the second half compared to USD4.9m in the first half or 18% growth second half over the first half.

The DWL business finished with revenues of EUR3.5m or 6% growth over the same period last year, reflecting a much stronger performance from this business for the first full year of trading since acquisition.

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**Explanation of Earnings before interest, tax, depreciation and amortisation (EBITDA)** *(Appendix 4E item 2.6)*

EBITDA at \$0.5m loss for the full year was a significant improvement on the \$2.2m loss for the same period last year and the \$2.5m loss for the first half of this financial year.

EBITDA was much improved in the second half of the year even removing the settlement proceeds of the legal dispute with our former distributor for Europe. During the second half of the financial year the company booked proceeds net of legal fees and other associated costs for this settlement of \$1.8m. The company therefore produced an underlying EBITDA result of \$0.2m, in the second half of the financial year.

Importantly the company has fully implemented cost reductions of about \$4m on an annualised basis of which approximately \$1.5m was attributable to the current year's result. These cost reductions have largely been the result of head count reductions. The head count reductions have been implemented across all parts of the business.

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

The loss from ordinary activities after tax reflects the underlying performance of the business as described above but also includes an amortisation charge related to the intellectual property acquired with DWL of \$0.3m that was booked in the first half of the financial year. As this asset value is now zero this charge will not be repeated in future periods.

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

Pursuant to the stated policy on dividends, a dividend will only 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 June 30, 2006.

**Compumedics Limited**  
**Consolidated income statement**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from continuing operations</b>	<b>37,605</b>	<b>38,366</b>
Other income	1,272	133
Cost of sales	(18,024)	(17,864)
Administration	(4,798)	(5,011)
Sales & Marketing	(9,972)	(10,323)
Research & Development	(7,312)	(8,991)
Finance costs	(643)	(549)
Net foreign exchange gain / (loss)	277	(359)
<b>Loss before income tax</b>	<b>(1,595)</b>	<b>(4,598)</b>
Income tax expense	-	(1)
<b>Loss for the full year</b>	<b>(1,595)</b>	<b>(4,599)</b>
Loss attributable to members of Compumedics Limited	(1,595)	(4,599)
<b>Losses per share for losses from continuing operations attributable to the ordinary equity holders of the company (cents):</b>		
Basic loss per share	(1.1)	(3.3)
Diluted loss per share	(1.1)	(3.3)
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	(0.4)	(2.3)
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	(0.4)	(2.3)

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

**Compumedics Limited**  
**Consolidated balance sheet**  
**as at 30 June 2006**

	2006 \$'000	2005 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,319	3,922
Trade and other receivables	13,112	11,665
Inventories	4,826	5,962
<b>Total current assets</b>	<b>21,257</b>	<b>21,549</b>
<b>Non-current assets</b>		
Receivables	-	119
Property, plant and equipment	918	1,521
Intangible assets	-	252
<b>Non-current assets</b>	<b>918</b>	<b>1,892</b>
<b>Total assets</b>	<b>22,175</b>	<b>23,441</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	7,127	7,456
Borrowings	3,197	5,806
Current tax liabilities	72	72
Provisions	640	535
Deferred revenue	1,109	1,178
<b>Total current liabilities</b>	<b>12,145</b>	<b>15,047</b>
<b>Non-current liabilities</b>		
Borrowings	3,247	130
Provisions	66	125
<b>Total non-current liabilities</b>	<b>3,313</b>	<b>255</b>
<b>Total liabilities</b>	<b>15,458</b>	<b>15,302</b>
<b>Net assets</b>	<b>6,717</b>	<b>8,139</b>
<b>EQUITY</b>		
Contributed equity	29,020	29,020
Reserves	(466)	(639)
Retained losses	(21,837)	(20,242)
<b>Total equity</b>	<b>6,717</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 full year**  
**as at 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Total equity at the beginning of the financial year	8,139	13,837
Exchange differences on translation of foreign operations	173	(399)
<b>Net income/(losses) recognised directly in equity</b>	<b>173</b>	<b>(399)</b>
Losses for the full year	(1,595)	(4,599)
Total recognised income and expenses for year	(1,422)	(4,998)
Dividend paid	-	(700)
<b>Total equity at the end of the financial year</b>	<b>6,717</b>	<b>8,139</b>

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

**Compumedics Limited**  
**Consolidated cash flows statement**  
**for the year ended 30 June 2006**

	2006 \$'000	2005 \$'000
<b>Cash flow from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	36,938	37,386
Payments to suppliers and employees for R&D activities (inclusive of goods and services tax)	(6,901)	(7,884)
Other payments to suppliers and employees (inclusive of goods and services tax)	(32,601)	(29,678)
	(39,502)	(37,562)
Interest received	118	210
Interest and other costs of finance paid	(643)	(533)
Receipts from grants and other income	1,711	132
Income tax paid	-	5
<b>Net cash (outflow) from operating activities</b>	<b>(1,378)</b>	<b>(367)</b>
<b>Cash flows from investing activities</b>		
Payment for purchase of controlled entity, net of cash acquired	-	(2,622)
Payments for property, plant and equipment	(112)	(345)
<b>Net cash (outflow) from investing activities</b>	<b>(112)</b>	<b>(2,967)</b>
<b>Cash Flows from financial activities</b>		
Proceeds from borrowings	1,371	2,714
Repayments of finance leases	(183)	(133)
Repayment of borrowings	(710)	(1,472)
Dividend Payment	-	(700)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>478</b>	<b>409</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,012)</b>	<b>(2,925)</b>
Cash and cash equivalents at the beginning of the year	3,328	6,352
Effects of exchange rate changes on cash	38	(99)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>2,354</b>	<b>3,328</b>
<b>This is represented by:</b>		
Cash Assets	3,319	3,922
Bank Overdraft (Interest bearing liabilities)	(965)	(594)
<b>Net Cash</b>	<b>2,354</b>	<b>3,328</b>

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

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

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

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

This consolidated financial report for the full year reporting period ended 30 June 2006 has been prepared in accordance with relevant accounting standards including *AASBI First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

### **(a) Basis of preparation of consolidated financial report**

#### *Going Concern*

During the full year ended 30 June, 2006 the consolidated entity (Compumedics) incurred an operating loss of \$1.6m and experienced negative cash flows from operations of \$1.3m contributed to in part by Compumedics strategy and resolve to change and restructure the organisation to facilitate future growth of the business.

This past financial year has seen the continuation of an aggressive restructure 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 and the reduction of cash expenses by approximately \$4.0m on an annualised basis. These cost reductions have largely been the result of head count reductions. The head count reductions have been implemented across all parts of the business.

During the second half of the year the Company has begun to see the benefits of this restructuring carried out and has posted a small underlying profit on improving revenues. The Company also posted a small positive operating cash in the second half.

Importantly the Company was also compliant with each of its bank covenant tests through the period from April 2006 to June 2006 and at June 30, 2006 as agreed with the bank in March 2006. This reverses the December 31, 2005 position where the Company was not compliant with its bank covenants as agreed at that point in time.

The Company will continue to maintain vigorous control of its costs as the improvements in revenues continue to emerge so as to give the business the best opportunity of returning to consistent profitability as quickly as possible, without jeopardising the sustainability of the business over the longer term.

To this end the Company continues to progress a number of additional strategies in order to potentially raise capital or reduce costs should the need arise.

The Company expects to continue the turnaround that was evident in the second half of this reporting period, as a consequence of the reduction in costs and an improved US performance, to continue during the remainder of calendar 2006. The turnaround in profitability and cash generation remains very dependent on margin improvement and also the Company's ability to improve debtor days through greater compliance to terms.

The Directors confirm as previously advised that they agreed to issue a redeemable convertible note (RCN) to D&DB 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 was drawn down on April 30, 2006.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
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## **1 Summary of significant accounting policies (continued)**

The conversion of the loan note to a convertible equity instrument and the higher coupon are 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 8.

At the time of this report the current future cash flow forecasts of the business allow for the repayment of the RCNs should the convertibility of the RCNs into ordinary equity in the Company not be approved by shareholders. In a situation where the approval to convert RCNs to ordinary equity of the business is not approved (or the note holder seeks to exercise its right not to convert the RCN into ordinary equity) and the current cash flows of the business at that time do not allow for the repayment of the RCNs, the directors will enter good faith discussions /negotiations with the note holder on a best efforts basis to retain the RCN funds in the company.

As a result of the above matters, 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.

### *Preparation of financial report*

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### *Compliance with IFRS*

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Compumedics Limited comply with International Financial Reporting Standards (IFRS).

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

This consolidated financial report is the first Compumedics Limited consolidated 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 consolidated 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 consolidated financial report for the full year ended 30 June 2006, 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 loss 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 consolidated financial statements**  
**for the year ended 30 June 2006**

**1 Summary of significant accounting policies (continued)**

**(b) Principles of consolidation**

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

Investments in subsidiaries are accounted for at cost, less any provision for diminution in value.

**(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 consolidated financial statements**  
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**1 Summary of significant accounting policies (continued)**

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

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

**(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.

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

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

On specific sales to end user customers the revenue recognition policy defers 12% (2005:12%) of revenue earned, 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

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**Notes to the consolidated financial statements**  
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**1 Summary of significant accounting policies (continued)**

the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

Compumedics Limited and its wholly-owned Australian controlled entities have 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) Business Combinations**

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(o)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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**Notes to the consolidated financial statements**  
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**1 Summary of significant accounting policies (continued)**

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

**(i) Impairment of assets**

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 consolidated financial statements**  
**for the year ended 30 June 2006**

## **1 Summary of significant accounting policies (continued)**

### **(m) Investments and other financial assets**

#### **From 1 July 2004 to 30 June 2005**

The group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, interests in listed and unlisted securities, other than subsidiaries and associates, were brought to account at cost and dividend income was recognised in the income statement when receivable. For zero coupon bonds, the difference between the amount paid and the redemption amount was amortised to the income statement over the period to maturity using the effective yield. The discount rate was that implicit in the transaction. Transaction costs were excluded from the carrying amounts.

#### **Adjustments on transition date: 1 July 2005**

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts were taken to retained earnings or reserves.

#### **From 1 July 2005**

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

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

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

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

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**1 Summary of significant accounting policies (continued)**

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

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

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.

**(o) 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.

**(p) Trade and other payables**

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

**(q) Borrowings**

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

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**1 Summary of significant accounting policies (continued)**

**(r) Fair value estimation**

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

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

**(s) Borrowing costs**

Borrowing costs 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; and interest payable on the RCN's issued to D&DB Holdings Pty Ltd.
- Bank charges on borrowing facilities

**(t) Provisions**

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is 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 any one item included in the same class of obligations may be small.

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

**(u) Employee Benefits**

*(i) Wages and salaries and annual leave*

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

*(ii) Long Service Leave*

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**1 Summary of significant accounting policies (continued)**

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.

*(iv) Shares and options granted after 7 November 2002 and vested after 1 January 2005*

No such options have been granted.

*(v) Termination benefits*

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

**(v) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the 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.

**(w) Dividends**

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

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

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

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

## **1 Summary of significant accounting policies (continued)**

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

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

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

#### **(i) UIG 4 *Determining whether an asset contains a lease***

UIG 4 is applicable to annual periods beginning on or after January 1, 2006. The Company has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Company will therefore apply UIG 4 on the basis of facts and circumstances that existed as of July 1, 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Company's current arrangements.

#### **(ii) UIG 5 *Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

The Company does not have any interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Company's financial statements.

#### **(iii) AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]***

AASB 2005-9 is applicable to annual reporting periods beginning on or after January 1, 2006. The amendments relate to the accounting treatment for financial guarantee contracts. The Company does not have any interest in financial guarantee contracts. These amendments will not affect the Company's financial statements.

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

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

#### **(v) UIG 6 *Liabilities arising from Participating in a Specific Market – Waste and Electriconic Equipment***

UIG 6 is applicable to annual reporting periods beginning on or after December 1, 2006. The Company has sold electronic and electrical equipment on the European market however this interpretation will not affect the Company's financial statements.

#### **(vi) AASB 2005-06 *Amendments to Australian Accounting Standards [AASB 21]***

AASB 2005-06 is applicable to annual reporting periods ending on or after December 31, 2006. The amendment relates to monetary items that form part of a reporting entities net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Compumedics Limited does have monetary items forming part of a net investment in a foreign operation however the amendment required by AASB 21 will have no material impact on the Company's financial statements.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**1 Summary of significant accounting policies (continued)**

**(z) 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.

**(ai) Contributed equity**

Ordinary shares are classified as equity.

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

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

**(aii) 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 year ended 30 June 2006**

**Note 2. Segment information**

**Segment reporting – Primary**  
**For the year ended 30 June 2006**

\$'000

	Sleep	Brain Research - Neuroscan	Clinical EEG & DWL - Neuroscience	Supplies & Service - NMS	Unallocated/ Elimination	Group
Sales to external customers	14,823	9,700	8,609	4,355	-	37,487
Intersegment sales	-	-	-	-	-	-
<b>Total sales revenue</b>	<b>14,823</b>	<b>9,700</b>	<b>8,609</b>	<b>4,355</b>	<b>-</b>	<b>37,487</b>
Other income/revenues	1,284	56	50	-	-	1,390
Net foreign exchange gain	-	-	-	-	208	208
<b>Total revenue/income</b>	<b>16,107</b>	<b>9,756</b>	<b>8,659</b>	<b>4,355</b>	<b>-</b>	<b>39,085</b>
<b>SEGMENT RESULT</b>	<b>1,163</b>	<b>(596)</b>	<b>(1,929)</b>	<b>944</b>	<b>(534)</b>	<b>(952)</b>
Finance costs						(643)
Tax expense						-
<b>Loss for the year</b>						<b>(1,595)</b>
Segment assets	6,860	3,988	4,166	2,345		17,359
Unallocated assets						4,816
Tax assets						-
<b>Total assets</b>						<b>22,175</b>
Segment liabilities	2,821	1,845	1,637	825		7,128
Unallocated liabilities						8,330
Tax liabilities						
<b>Total liabilities</b>						<b>15,458</b>
<b>Net assets</b>						<b>6,717</b>
Acquisition of PPE	-	-	26	-	92	118
Acquisition of intangibles and other non-current segment assets	-	-	-	-	-	-
Depreciation & Amortisation	-	-	(297)	-	(534)	(831)

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**Segment reporting – Primary**  
**For the year ended 30 June 2005**

	\$'000					
	Sleep	Brain Research - Neuroscan	Clinical EEG & DWL - Neuroscience	Supplies & service - NMS	Unallocated/ Elimination	Group
Sales to external customers	17,385	9,449	7,505	3,818		38,157
Intersegment sales						
<b>Total sales revenue</b>	<b>17,385</b>	<b>9,449</b>	<b>7,505</b>	<b>3,818</b>	<b>-</b>	<b>38,157</b>
Other income / revenue	173	94	75	-		342
<b>Total revenue/income</b>	<b>17,558</b>	<b>9,543</b>	<b>7,580</b>	<b>3,818</b>		<b>38,499</b>
<b>SEGMENT RESULT</b>	<b>(469)</b>	<b>(1,119)</b>	<b>(2,396)</b>	<b>554</b>	<b>(619)</b>	<b>(4,049)</b>
Finance costs						(549)
Tax expense						(1)
<b>Loss for the year</b>						<b>(4,599)</b>
<b>Segment assets</b>	<b>7,267</b>	<b>4,144</b>	<b>3,005</b>	<b>1,795</b>	<b>-</b>	<b>16,211</b>
Unallocated assets						7,230
Tax assets						-
<b>Total assets</b>						<b>23,441</b>
<b>Segment liabilities</b>	<b>3,497</b>	<b>1,846</b>	<b>1,719</b>	<b>493</b>	<b>-</b>	<b>7,555</b>
Unallocated liabilities						7,675
Tax liabilities						72
<b>Total liabilities</b>						<b>15,302</b>
<b>Net assets</b>						<b>8,139</b>
Acquisition of PPE	-	-	138	-	345	483
Acquisition of intangibles and other non-current segment Assets	-	-	1,744	-	-	1,744
Depreciation and amortisation	-	-	(1,485)	-	(619)	(2,104)

**Explanation of Primary business segments**

The primary business segments are based on the significant area's in which the business operates. These include:

- (i) Sleep – sleep diagnostic hardware and software for clinical application
- (ii) Neuroscan – neurological research hardware and software for research application
- (iii) Neuroscience – neurological and trans cranial Doppler hardware and software for clinical application
- (iv) NMN – neuro medical supplies for use in all three area's above. The section also includes service contracts

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**Segment reporting – Secondary**  
**For the year ended 30 June 2006**

\$'000

	USA	Asia/Pac	EUR	Elimination	Group
Sales to external customers	14,058	13,035	10,394		37,487
Intersegment sales	1,536	2,460	481	(4,477)	-
<b>Total sales revenue</b>	<b>15,594</b>	<b>15,495</b>	<b>10,875</b>	<b>(4,477)</b>	<b>37,487</b>
Other income/revenue	56	113	1,221	-	1,390
<b>Total segment revenue</b>	<b>15,650</b>	<b>15,608</b>	<b>12,096</b>	<b>(4,477)</b>	<b>38,877</b>
<b>Segment Assets</b>	<b>6,364</b>	<b>20,282</b>	<b>4,631</b>	<b>(9,102)</b>	<b>22,175</b>
Tax assets					-
<b>Total assets</b>					<b>22,175</b>
Acquisition of PPE	39	53	26	-	118
Acquisition of intangibles and other non-current segment assets	-	-	-	-	-
Depreciation & Amortisation	(127)	(407)	(297)	-	(831)

**Explanation of changed secondary segment reporting**

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.

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**Segment reporting – Secondary**  
**For the year ended 30 June 2005**

	USA	Asia/Pac	EUR	Unallocated/ Elimination	\$'000 Group
Sales to external customers	16,927	12,436	8,794		38,157
Intersegment sales	1,179	2,829	622	(4,630)	-
<b>Total sales revenue</b>	<b>18,106</b>	<b>15,265</b>	<b>9,416</b>	<b>(4,630)</b>	<b>38,157</b>
Other revenue/income	1	267	74	-	342
<b>Total segment revenue</b>	<b>18,107</b>	<b>15,532</b>	<b>9,490</b>	<b>(4,630)</b>	<b>38,499</b>
<b>Segment Assets</b>	<b>2,892</b>	<b>20,197</b>	<b>2,791</b>	<b>(2,439)</b>	<b>23,441</b>
Unallocated assets					-
Tax assets					-
<b>Total assets</b>					<b>23,441</b>
Acquisition of PPE	141	175	167	-	483
Acquisition of intangibles and other non-current segment assets (net of impairments)	-	-	1,744	-	1,744
Depreciation & Amortisation	(186)	(378)	(1,540)	-	(2,104)

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

**Note 3. Business Combination**

**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

**Current year**

Upon transition to AIFRS the company reviewed the carrying 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 Impairment of Assets the business reduced the carrying value of the intellectual property as described in Note 6.

At 31 December 2005 the Directors identified an impairment indicator and consequently reviewed the carrying value of the intellectual property for impairment. This resulted in \$252,000 of intangible assets being written off. The carrying value of the intellectual property at June 30, 2006 was NIL (June 2005: \$0.3m)

**Note 4. Dividends** (Appendix 4E, Item 6)

	Parent entity	
	<b>2006</b>	<b>2005</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 Fully franked based on tax paid @ 30%	Nil	700
Paid in cash	Nil	700
Satisfied by issue of shares	Nil	Nil

**Dividend/distribution reinvestment plans** (Appendix 4E item 7)  
**NOT APPLICABLE**

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

The company is not aware of any material matters that would impact the financial performance of the company at this time.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

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

**1 Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principals (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)**

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

Notes	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
Trade and other receivables	10,308	-	10,308
Inventories	6,481	-	6,481
<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>			
Trade and other payables	4,614	-	4,614
Borrowings	1,884	-	1,884
Current tax liabilities	55	-	55
Provisions	346	-	346
Deferred revenues	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>			
Borrowings	2,122	-	2,122
Deferred tax liabilities	-	-	-
Provisions	213	-	213
<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 year ended 30 June 2006**

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

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

Notes	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
Trade and other receivables	11,665	-	11,665
Inventories	5,962	-	5,962
<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
Intangible assets (b)	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
Borrowings (d)	1,391	4,415	5,806
Current tax liabilities	72	-	72
Provisions	535	-	535
Deferred revenues (a)	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>			
Borrowings (d)	4,545	(4,415)	130
Provisions	125	-	125
<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 (c)	-	(639)	(639)
Retained earnings (a), (b), (c)	(19,673)	(569)	(20,242)
<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 year ended 30 June 2006**

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

**2 Reconciliation of profit for the year ended June 30, 2005**

		30 June 05	
	Notes	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000
			AIFRS \$'000
Revenues from continuing operations	(e)	38,366	38,366
Other income		133	133
Cost of goods		(17,864)	(17,864)
Administration	(a)	(5,019)	8
Sales and marketing		(10,323)	(10,323)
Research and development	(b)	(7,883)	(1,108)
Finance costs		(549)	(549)
Net foreign exchange loss	(c)	(758)	399
<b>Loss before income taxes</b>		<b>(3,897)</b>	<b>(701)</b>
Income tax expenses		(1)	(1)
<b>Loss after income taxes</b>		<b>(3,898)</b>	<b>(4,599)</b>

**3 Reconciliation of cash flow statement for the year ended June 30, 2005**

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

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

**4 Notes to the reconciliations**

**(a) Property Lease**

Pursuant with the requirements of AASB117 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 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 year ended 30 June 2005**

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

**(b) 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 was adjusted. 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.

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 June 30, 2005**

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2006**

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

**4 Notes to reconciliations (continued)**

**(c) 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 June 30, 2005**

The foreign currency translation reserve was \$639k and retained losses were reduced by the same amount.

**For the year ended June 30, 2005**

A reduction in the loss of the business by \$399k.

**(d) Reclassification of long term borrowings**

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.

As the Company had breached its covenants with the bank at June 30, 2005 but had not at that point in time obtained a waiver for the covenant breaches from the bank, the long term borrowings have been reclassified as current borrowings at June 30, 2005.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
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**Note 7 - Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities**

	2006 \$'000	2005 \$'000
Loss for the full year	(1,595)	(4,599)
Depreciation & amortisation	831	2,104
Doubtful debts	(4)	115
Net exchange differences	-	(399)
Non-current assets written off	-	20
Property lease benefit amortisation	(33)	(8)
<b>Change in operating assets and liabilities, net of effects from purchase of controlled entity</b>		
Decrease (Increase) in receivables	(1,176)	(1,233)
Decrease (Increase) in inventories	1,136	1,432
Decrease (Increase) in other current assets	(152)	(358)
(Decrease) Increase in payables	(328)	2,781
(Decrease) Increase in deferred revenues	(107)	(349)
(Decrease) Increase in provision for income taxes payable	-	21
(Decrease) Increase in other provisions	50	106
<b>Net cash (outflow) from operating activities</b>	<b>(1,378)</b>	<b>(367)</b>

**Note 8 – Current interest bearing liabilities**

On March 16, 2006 the company issued Redeemable Convertible Notes (RCNs) to D&DB 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 up to 20% pa subject to shareholder approval and in the event that the shareholders do not approve the convertibility of the RCNs. Otherwise a default coupon rate of interest of 14.5% pa applies.
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 at 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 note holder at the note holder's discretion and a \$50,000 penalty fee applies.

**Compumedics Limited**  
**Supplementary Appendix 4E information**  
**for the year ended 30 June 2006**

**Net Tangible Asset Backing** *(Appendix 4E item 9)*

	2006	2005
Net tangible asset backing per ordinary share	4.8 cents	5.6 cents

**Controlled entities acquired or disposed of** *(Appendix 4E item 10)*

No control was gained over any new entities nor control lost over any existing entities of the group.

**Associates and Joint Venture entities** *(Appendix 4E item 11)*

The company has no interest in any joint ventures at the date of this report.

**Commentary on results** *(Appendix 4E item 14)*

**Earnings per share**

Losses per share improved in line with the improved position of loss of the business for the 12 months ended June 30, 2006.

**Returns to shareholders**

As per earnings per share commentary.

**Significant features of operating performance**

Comments already noted.

**Compumedics Limited**  
**Supplementary Appendix 4E information**  
**for the year ended 30 June 2006**

***Results of segments***

Primary Segments:

All primary business segments showed improvement consistent with the underlying performance of the group.

The sales restructure that has lead to current emerging sales position was effected across all parts of the group.

In addition, expense reductions were also consistently applied across the business segments.

***Trends in performance***

The focus for the Company will be on the continuing restoration of earnings and the consistent achievement of such earnings over time. The Company will also continue to logically expand its market penetration in each of its existing key markets as the financial capacity of the Company allows for this.

***Other factors that affected results in the period or which are likely to affect results in the future***

All material matters have been discussed.

**Foreign Accounting standards** *(Appendix 4E item 13)*

Not applicable.

**Audit** *(Appendix 4E items 15 - 17)*

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