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'Defining *Life's* Signals'

COMPUMEDICS
LIMITED

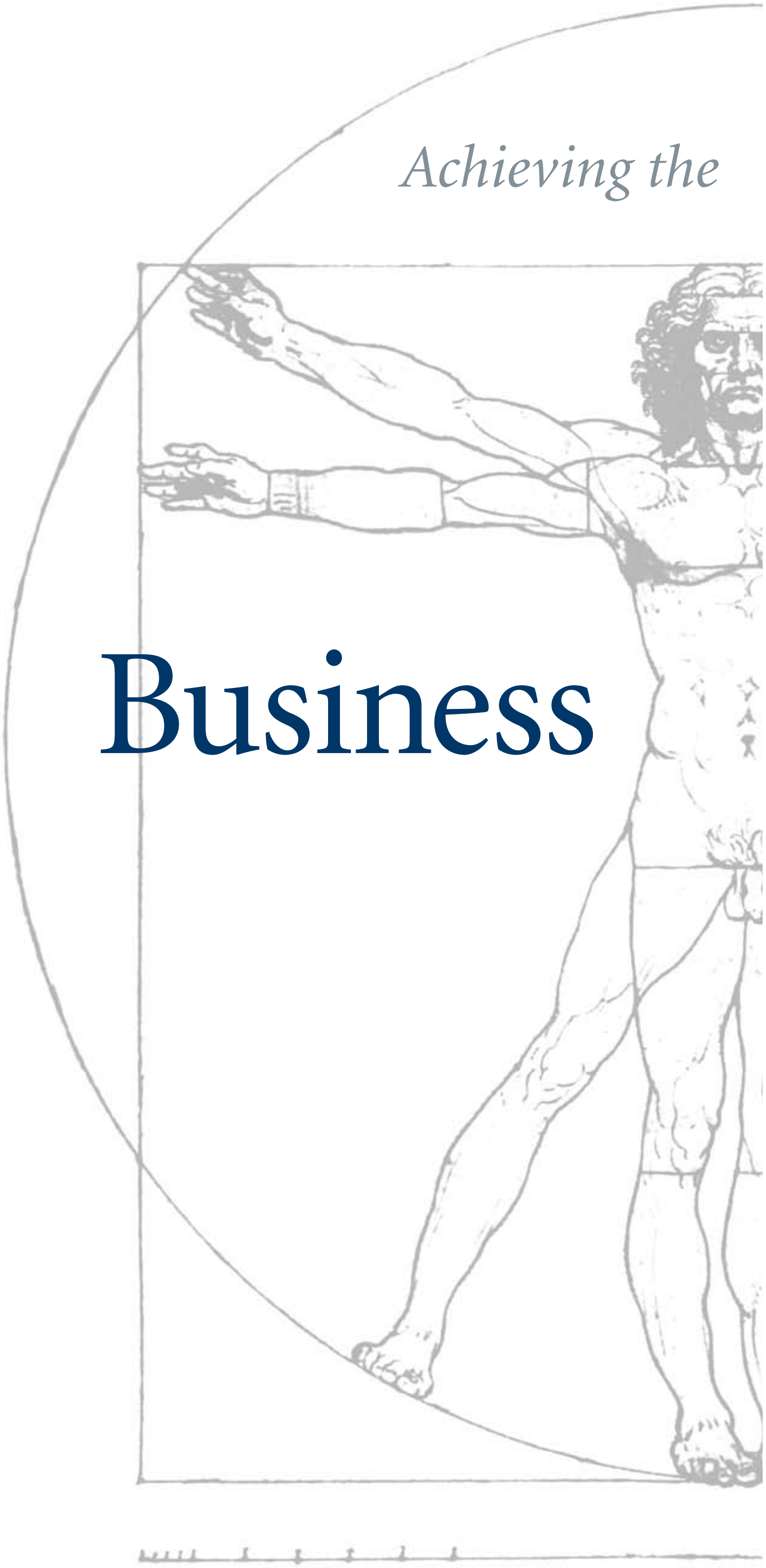
> Sleep Diagnostics > Brain Research > Neurodiagnostics > Doppler Sonography > Neuromedical Supplies

20 YEARS
of SLEEP
DIAGNOSTIC
EXCELLENCE
1987 - 2007

> Annual Report 2007

Achieving the

Business



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

Sales stabilised despite restructure activities — $37M

Reduction in operating expenses over the last two years approaching approximately. — $5M

Earnings before interest, tax, depreciation and amotisation turns around $2.8M to a profit of $1.3M in the current year.

Substantial reduction in bank debt achieved. — $3M

R&D product pipeline maintained and breakout SomniLink® SPAP® technology released.

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Innovation

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

Somté PSG – The next generation full sleep ambulatory device compliant with the new AASM rules released.

R&D spending this year as a percentage of revenues: **12.5%**

As the company grows, research and development spending will level out at current $ spending for the next few years.

Sleep Products received regulatory clearance in Taiwan.

Major new product releases planned for 2008 financial year.

FINANCIAL SUMMARY

ALL FIGURES IN A$M UNLESS OTHERWISE STATED	**2007**	2006
Revenue for continuing operations	**36.7**	37.7
(Loss) before interest, income tax, depreciation and amortisation (EBITDA)	**1.4**	(0.0)
(Loss) before interest and income tax (EBIT)	**1.0**	(1.0)
Net operating (loss)/profit after tax (NPAT)	**0.1**	(1.6)
Research and development costs as a percentage of operating revenue	**12.5**	19.4
Total assets	**19.2**	22.1
Shareholders funds	**6.9**	6.7
Net tangible assets per share (cents)	**4.3**	4.8
Weighted average number of shares (million)	**143**	140
Earnings per share (basic) (cents)	**0.1**	(1.1)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents)	**1.0**	(0.0)

UNDERSTANDING THE NUMBERS

Revenues: Revenue declined by 3% from $37.7m to $36.7m over the previous corresponding period.

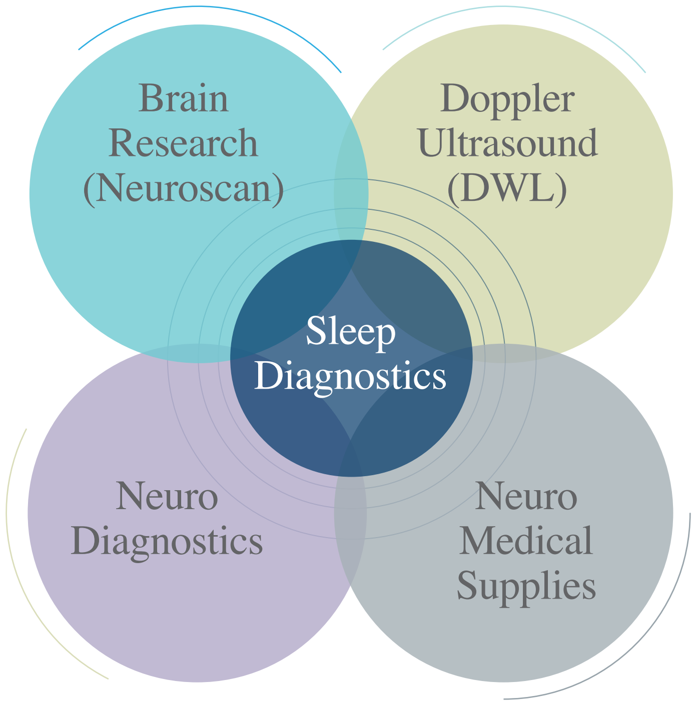
EBITDA: Improved to a profit of $1.4m in the current financial year from a $10.5m loss in the previous financial year.

PAT: The business made $0.1m this year compared to a $1.6m loss last year due to a significant improvement in the business in the financial year as a result of the restructuring and continued focus on the turnaround.

Compumedics Limited
ABN 95 006 854 894

Annual General Meeting
Thursday 1st November 2007
at 10.30am
To be held at: Compumedics Limited
30-40 Flockhart Street Abbotsford
Victoria 3067

'Our *focus*...



Building a world-class medical diagnostic technology company.

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

...remains firm.'

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A focused strategy in action

For 20 years, Compumedics' focus in Sleep and associated medical disorders has established a solid platform for growth.

1987

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

1988

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

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

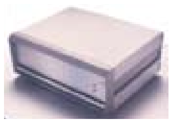
1989

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

1990

1991

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



P-Series and S-Series released
Compumedics announced the release of the P-Series Portable Sleep Monitoring System with features including intelligent CPAP control.

Compumedics released its S-Series optical erasable disk storage sleep systems.

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

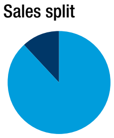
1992

1993

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

Sales revenue
$1.7M

Sales split



- Domestic **$1.5m**
- Export **$0.2m**

1994

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

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

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

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

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

1995

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

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

1996

Used by NASA and SHHS.

Key awards and wins
Compumedics was awarded the European CE mark for Quality and Good Manufacturing Processes.

Compumedics won the contract to supply medical hardware for the International Space Station's Human Research Facility (HRF) under contract to NASA.

1997

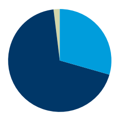
P-Series products wins award and FDA approval
Compumedics' P-Series wins a Highly Commended Award at the Australian Engineering Excellence Awards.

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

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

Sales revenue
$5.4M

Sales split



- Domestic **$1.6m**
- Export **$3.7m**
- Other **$0.1m**

Building a world-class medical diagnostic technology company.

1998

Compumedics recognised
Compumedics was named Australian Exporter of the Year.

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

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

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

Compumedics was awarded the 1998 AusIndustry Innovation Award.

Compumedics was awarded the 1998 Telstra Innovation Award.

1999

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

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

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

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

2000

Compumedics' ASX listing
Compumedics listed on the Australian Stock Exchange.

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

2001

CMP receives more recognition
Compumedics won the 2001 Australian Export Award for Small to Medium Manufacturers.

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

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

FDA approval for Siesta
Siesta Systems receives FDA clearance to market in the USA.

Siesta 802™ – World leading wireless system for sleep and EEG.

2002

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

Somté receives European clearance
Somté receives CE mark for European Market

Compumedics' completes first acquisition – Neuroscan.

Sales revenue
$20.2M

2003

$10 million deal signed with Draeger Medical
Compumedics signs the largest distribution deal to date worth AU$10 Million with Draeger Medical (Germany).

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

Sales revenue
$32.1M

2004

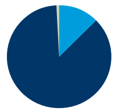
Compumedics acquires German based DWL Electronishe Systeme GmbH

FDA approval for Summit IP
Summit IP receives FDA clearance to market in the USA

FDA approval for SynAmps2
SynAmps2 receives FDA clearance to market in the USA

Sales revenue
$34.0M

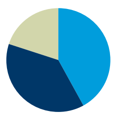
Sales split



2005

DWL division established for blood-flow Doppler technology.

Staff globally at June 30

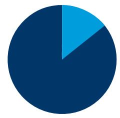


Sales revenue
$38.2M

2006

Sleep Products received regulatory clearance in Taiwan

Sales revenue Regional Split



Key distributor agreement signed with Medigas Italia, a division of Praxair, Inc., for the distribution of the complete Compumedics product line.

Neuroscan MaglinkRT released with CE mark approval.
Latest generation technology for recording EEG and ERP in the MRI.

2007

Compumedics awarded the 2006 Frost & Sullivan Technology Leadership Award.

Compumedics and chairman inducted into the Victorian Manufacturing Hall of Fame.

Somté PSG is released -
the simplest and most convenient way to meet requirements for recording full PSG, in both attended and unattended settings.

Profusion PSG3 is released -
the next generation world class sleep diagnostics software - redesigned and with more powerful productivity tools. World's first to be AASM compliant.

Somté PSG & Profusion PSG3 receive CE mark

Somté PSG™ - Full PSG absolutely anywhere.

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Chairman's address

Dear Compumedics investors and stakeholders,

I am pleased to be able to report that after two very challenging and demanding years of trading that Compumedics closed the 2007 financial year profitably and on a solid basis from which growth can evolve, moving forward.

The continuing turnaround in performance has occurred against a back-drop of significant cost reductions and management changes.

Despite this challenging environment Compumedics achieved the following key outcomes in the 2007 financial year:

- *Major turnaround in performance*
- *Sales stabilised despite adverse impact of unfavourable Foreign exchange movements*
- *Substantial reduction in operating costs*
- *Bank debt significantly reduced*
- *R&D pipeline maintained*
- *New breakout SomniLink® SPAP® technology released and first revenue generated*

Compumedics investors, employees and other related parties have continued to work diligently and vigorously over the financial year with the end result being that Compumedics achieved a net profit after tax in 2006-07 of $0.1 million compared with a loss of $1.6 million in the prior year. Revenue fell slightly to $36.7 million from $37.7 million largely due to adverse currency movements. Key financial metrics markedly improved in the 2007 financial year including:

- *Gross margins were up from 52% to 59% despite currency movements*
- *Cash expenses were reduced by $2.8 million in 2006-07 and by $5 million over the past two years*
- *EBITDA in 2006-07 was $1.3 million compared with a loss of $0.5 million in 2005-06*
- *Operating cash flow recovered from a deficit of $1.5 million in the 2006 financial year to a positive $0.8 million in the 2007 financial year*
- *Borrowings were substantially reduced from $6.4 million at June 2006 to $3.4 million at June 2007*
- *Borrowing costs, however, jumped from $0.6 million in the 2006 financial year to $0.9 million in the 2007 financial year*
- *Revenue growth achieved in USA (11%), Europe (16%), Australia (5%) and DWL (6%) offset by fall in Asia (-36%) and currency movements.*

Concerted and targeted efforts since 2005 have resulted in a turnaround of the core business, which has returned to profitability after two years of losses.

As you may be aware, Compumedics restructured its management team in 2005 and put in place management information systems to ensure costs, profits, revenues, cash and general performance were carefully controlled and monitored. These new initiatives and tremendous company-wide efforts have resulted in an approximate $5 million reduction in operating costs notwithstanding a high priority to maintain research and development efforts.

Compumedics' research and development teams have continued to focus on maintaining the Company's leading technological edge. As a consequence, the Company has released over the last financial year several new products to markets and will over the course of this financial year release several new breakthrough and modified products.

Sales were stable despite the intense pressure from severe constraints imposed on working capital as the Company successfully reduced its borrowings. Despite the marked reduction in borrowings, the borrowing costs were very high. Nonetheless, these costs will be considerably lower in the current year.

In the face of these financial constraints, the Company maintained its innovative R&D program and launched the SomniLink® SPAP® system, an integrated positive airway-pressure system for the treatment of sleep apnoea. Furthermore, the Company is about to release its innovative long-term neurological-monitoring product, Neuvo, which will advance the business to another level.

Compumedics' core businesses include sleep devices and consumables from its Sleep Division, Doppler ultrasound blood-flow diagnostic products from its DWL Division, and brain function research and clinical neurology products from its Neuroscan and Neuroscience Divisions. Each of these divisions demonstrated continued improvement over the past year, and despite the pressure on working capital each division maintained strong, on-going research and development programs. Therefore in all divisions the product pipeline supports strong growth moving forward.

Over the past year, Compumedics has complemented its robust direct-sales sleep-diagnostics business in Australia and the United States with a series of distribution agreements with partners in Europe and the Middle East. These new agreements alone should result in incremental revenue of at least $10 million over the next three years.

Compumedics will continue to pursue profitable and sustainable growth opportunities in each of the divisions of the group.

It would be remiss of me not to mention the hard work and dedication of our operational and manufacturing staff around the world who continued to not only focus on "getting the product out the door" but who have actively engaged in on-going measures that will see further cost savings and quality improvements flow to our clients and the business in the year ahead. These factors, together with improvements in our installation and training teams and technical service support will continue to provide the Company with further opportunities to meet customers' requirements in the most efficient manner possible.

I am also very pleased to note that Compumedics' long-term strategy of complementing its suite of products for sleep diagnostics with new and innovative sleep-treatment products reached a significant milestone in June 2007 with the completion of binding letter of intent with a major international partner in the medical devices market. The relationship commenced with Medigas Italia, a member of the global Praxair, Inc. group of companies, to commercialise Compumedics' SomniLink® SPAP® system in Italy and eastern European countries. The sleep-treatment market is approximately ten-fold greater in magnitude than the sleep-diagnostics market in which Compumedics' current suite of products competes. Compumedics has commenced negotiations to exploit the greater global sleep-treatment market with several companies, collectively which generate more than $10 billion in annual sales. Compumedics will update the market on results of these negotiations when they reach material outcomes.

In conclusion, this financial year has been a significant one with the move to profitable trading in the core business which is sustainable at the current revenue stream. As mentioned, this restoration in profitability was achieved due to the efforts of Compumedics' dedicated and highly skilled team of employees focused on restructuring the Company to more cost-effectively deliver its world-class products.

While we are pleased that, in the face of the constraints on working capital, the Compumedics team was able to maintain the level of revenue of recent years, with significantly reduced costs and working capital, we are dedicated to continuous improvement in all our processes. The Company is now in a stronger position to return to its traditional growth outlook, whilst restoring its cash reserves.

Finally, I would like to again thank all those patient and trusting Compumedics clients, stakeholders, employees, families and friends who continue to contribute their support, resolve, goodwill and encouragement during yet another very demanding and tough year for the business but a year that clearly re-established our foundation and future growth prospects.

Yours sincerely,

David Burton
Executive Chairman and CEO, Compumedics Limited

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The company has traded profitably now for some 18 months. Has the corner been turned?

Whilst it will always be difficult for any small - medium business competing and expanding on the global stage to state categorically that the corner has been turned, it is very encouraging that Compumedics has traded profitably for 18 months now. The last two years saw the Company implement a very demanding and rigorous re-structure of the business across all areas, which has lead to the emergence of positive earnings at the current revenue stream.

The current year's result has been achieved despite a tight working-capital regime, onerous debt repayments and increasing borrowing costs. Despite this, the business still achieved an overall operating profit.

Are you satisfied with the results to date?

In terms of the outcomes of two years of re-structuring and cost reductions the answer would be yes. In terms of the absolute result we still have much work to do to obtain market-acceptable levels of earnings and then to ensure these can be consistently achieved over the long term.

The work that has been done to date will enable the business to continue to execute its strategic goals which includes a return to strong growth and profitability.

What are the key actions going forward for the business to ensure the improvements continue?

There are a wide range of on-going programs and new initiatives that will continue to progress. The existing programs range from continuing to strengthen our Asian and European distribution arrangements, launch our new long term monitoring EEG product range, intensify our sales and marketing efforts through to on-going cost reductions.

Late in the 2007 financial year Compumedics sub-let a third of its office space in Melbourne as this was surplus to its needs. In addition, the US business has been re-located from El Paso, Texas to Charlotte in North Carolina. These two initiatives will contribute cost savings in the 2008 financial year. Furthermore, Compumedics will continue to review all operational aspects of the business to ensure that all activities are being achieved in the most efficient and economical manner possible.

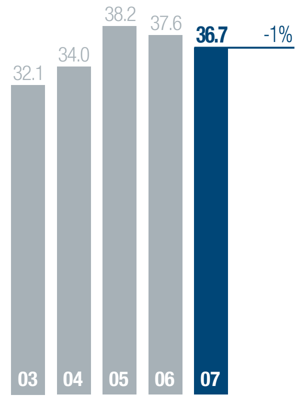
Research and development spending continues to fall. Will this have any adverse impacts for the business in future years?

The Company has reduced research and development (R&D) expenditure back to about 15% of revenues, excluding the booking of the intangible asset this year. This is a significant reduction from the 20% of revenues spent on R&D two years ago. The company plans to hold R&D spending in dollar terms at current levels until on-going revenue growth in the business sees R&D spending at about 12% of revenues. Compared to our peers overseas this is an appropriate target to aim for without jeopardising the product flow and delivery for the business.

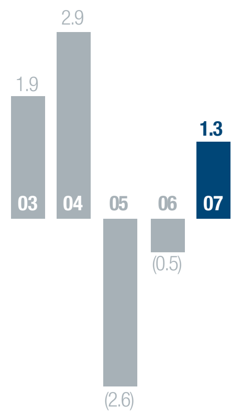
More importantly, Compumedics released several new products in the 2007 financial year and has a significant pipeline of products ready for release in the current financial year. The business is in a very strong position as far as product development and releases are concerned.

The Australian dollar to the US dollar exchange rate has appreciated significantly in the current year and looks like holding at current levels for some time. How will this impact the business going forward?

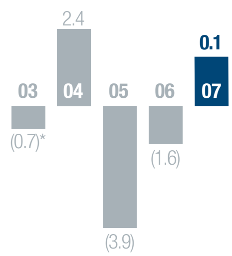
The Board reviews the Company's foreign exchange policy on a regular basis. In the 2007 financial year the Company booked a $1m net foreign exchange loss as a direct consequence of the falling US dollar exchange rate. However, it is important to note that in the over six years since listing Compumedics the impact of foreign exchange movements on the profitability of the business had been almost neutral.



Revenue $millions

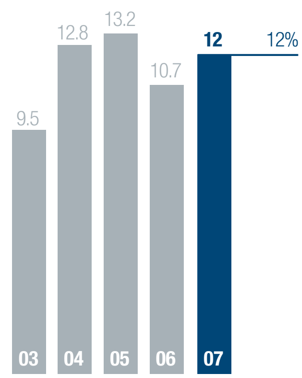


EBITDA $millions



NPAT $millions

*excluding write down of intangible assets



US business revenues
$US millions

Borrowings reduced from $6.4M to $3.4M in the current financial year.

US home office relocated to Charlotte, North Carolina

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The Company estimates that a plus or minus one cent movement in the Australian dollar to the US dollar exchange rate has an approximate plus or minus $60,000 impact on profits after tax.

The on-going strength of the Australian dollar relative to the US dollar forces the business to continue to rigorously seek efficiencies so that underlying profits can be maintained, which is not a bad thing.

Both the US and European businesses grew although not as quickly as in the first half of the financial year. Why was this?

The core Compumedics business is sleep and neurological diagnostic equipment sales, which are ultimately capital equipment sales. As a consequence, the buying patterns of our customers in the Northern hemisphere tend to be skewed to the first half of our financial year. This appears to be largely a result of the budget cycles of the major customers in these markets.

The onus on Compumedics is to continue to expand the global geographical foot print of its businesses so this seasonal effect is diminished. This is a primary focus of the business in these two geographic areas over the next couple of years.

How has the DWL business performed in the current year?

The DWL business posted revenue growth of about 6% over the prior year and continues to build on its product offerings around the world. Importantly the US business grew significantly in the current year, albeit relatively on small numbers. This growth in the US business is forecast to continue in the current year.

Describe your company's principal product and the healthcare markets they relate to.

Compumedics Limited, founded in 1987, is a global leader in the design and manufacture of diagnostic technologies for sleep disorders, neurophysiology and cardiology.

Compumedics holds an 80% share of the Australian sleep-diagnostic market, and has a major and rapidly growing presence in the US, European and Asian markets for its sleep, neurological, and Doppler blood-flow diagnostic monitoring devices.

All of these fields were pioneered or discovered in the 1980s, validated in the 1990s and are only now undergoing a rapid commercialisation into the fast expanding 1 billion dollar plus global market for these products.

The Company has increased sales more than 4-fold from $9 million (in 1999) to the region today of $40 million. This reflects our continued commitment to R&D as well as sales and marketing. On those numbers, you can see we are a relatively early "play" but our outlook in these unique fields is high growth. Our move into the adjoining field of sleep-treatment with a new patented breakthrough product, switches us from a core global diagnostics sleep-market, which is estimated in the region of $250 million, to the $2 billion treatment market. We now have a new "intelligent" CPAP treatment called "SPAP", which is an innovation the Company has developed and which is a natural step-out for the Company. Our focus has been primarily in high growth, early phase, good outlook markets, in relatively new areas and we are now switching into the treatment sector, which is a complementary market but much larger.

What is the rationale for the Company moving beyond diagnostics technologies for sleep disorders where you have a strong market position into the more competitive treatment market?

The development of advanced products for treating sleep apnoea is a natural step-out from our traditional diagnostics business and leverages the Company's knowledge and experience in the field to develop advanced, next-generation solutions for the management and treatment of an increasing prevalent problem.

This is a major milestone for Compumedics, as the development of new and innovative products in the sleep-treatment market have been a part of our long-term vision for the Company. While some experts view sleep treatment primarily as addressing deficient respiratory function, our development of the SomniLink® SPAP® system is based on the premise that both quality-of-life and sleep-quality are integral to the optimal treatment for sleep-disordered breathing conditions, including sleep apnoea.

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Geographic territories that did grow revenues year on year and their growth rates.

	USA	Europe		Aust/NZ	DWL
Last year:	+11%	+16%	This year:	+5%	+6%

We understand that Compumedics is a global leader in the $250 million sleep – disorder diagnostics technologies market. This move takes the Company into the $2.1 billion global sleep–treatment market. What impact is this likely to have on Compumedics if it can take a significant share of this market?

Being the only independent sleep-diagnostics company and having such a large installed base of sleep beds in many of the most prestigious clinical and sleep-research organisations in the world, the SomniLink® SPAP® system may become a logical choice for practitioners to recommend to patients, subject to any regulatory constraints. We expect that Compumedics' market presence in the sleep-treatment market will grow organically from its well-known and dominant presence in the sleep-diagnostic realm.

Further, the design approach to the SomniLink® SPAP® system took into account sleep efficiency and patient comfort, as well as being a simple treatment for OSA. The SPAP® system has the ability to link to a patient's diagnostic data for controlling the system. This has resulted in a treatment system that is arguably superior to those currently available in the market. The SPAP® also has the ability to link into the sleep-diagnostics laboratories and clinics with a product that can be individually controlled according to both sleep- and respiratory-related diagnostics for an individual patient, all at a competitive price, It is unlikely that there will be head-to-head competition and undercutting on price by competitors, because the SPAP® products are well differentiated.

Given established players in the market and the early stage of your commercialisation program, are you targeting any specific opportunity or market segment to build a presence?

Obstructive sleep apnoea may affect up to 10% of the population. Only a small proportion of OSA sufferers have been diagnosed to date. The estimate of market size may be very conservative and growing. Compumedics already has its diagnostic equipment installed in over 4,000 beds around the world, in a significant proportion of the world's sleep laboratories, representing hundreds of millions of dollars of sleep-treatment device sales per year, to other companies. The sleep practitioners who run the laboratories with Compumedics equipped beds that are used in diagnosing OSA will likely enable a ready market for the new SomniLink® SPAP® gas-delivery systems.

Even a small proportion of new gas-delivery systems sold each year will result in Compumedics gaining a market presence very quickly. Initial trials have indicated that the technology in the SomniLink® SPAP® system provides the potential for a superior treatment experience for the ultimate decider – the patient.

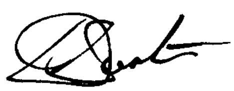
What expectations do you have for these products over the next few years. Do you see the time when treatment technologies surpasses diagnostics as the core of the group's operations?

The treatment market is nearly 10 times the value of our diagnostic market and we have premium value and innovative products so the outlook is promising and has the potential to surpass the size of our diagnostic business.

What does the next 12 months hold for investors?

The core business focus will continue to be based on our three diagnostic competencies - sleep, neurology and Doppler blood flow technology. We now need to drive the scale and proficiency of our sales and marketing to achieve leadership within these multi-billion dollar device segments. In terms of the treatment side of our business which we demonstrated recently, we hope that the 1-2% market share which we achieved as the first test, signing with our partner in Italy will now be complemented with a global large-scale OEM deal.

We will retain our continued focus on productivity, and importantly, strive to switch our growth engines back into gear as we replenish our capital reserves without unnecessary shareholder dilution. Moreover, we will return this great Company back to its traditional growth rate to the benefit of all stakeholders.



David Burton
Executive Chairman and CEO, Compumedics Limited

The Business of Compumedics

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

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

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

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

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

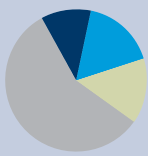
Current Market Share:

6%

Where we compete:

- Asia 14%
- Europe 15%
- USA 56%
- Australia/NZ 15%

(Total Sales)



Competitive Advantages:

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

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

Global Sleep Diagnostics market A$:
$250M

Global Brain Research market A$:
$30M

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

Current Market Share:

28%

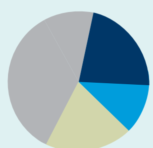
Competitive Advantages:

1 Superior patented technology
2 Uncompromised system design
3 Unmatched innovation

Where we compete:

- Asia 27%
- Europe 23%
- USA 40%
- Australia/NZ 11%

(Total Sales)



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

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Doppler Ultrasound market A$: $19M

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

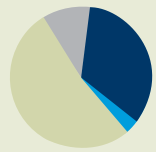
DWL Doppler systems are used in a wide range of specialist branches of medicine including neurology, neurosurgery, cardio- and vascular surgery, anesthesia, intensive treatment, internal medicine, angiology and radiology.

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

Current Market Share:

less than 35%

Where we compete:



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

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

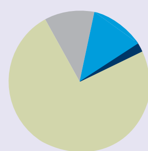
Global Neuro-diagnostics market A$: $890M

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

Current Market Share:

less than 1%

Where we compete:



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

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

Global Neuro-medical Supplies market A$: $260M

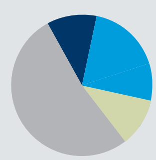
Description of the market:
The Neuromedical Supplies market comprises sleep consumables, brain research consumables and neurodiagnostic consumables.
Typically, items sold in these markets comprise electrodes, sensors, head caps, gels, respiratory bands and the like. Items replacement cycles range from disposable to replacing once every six months.

Current Market Share:

1%

Competitive Advantages:
1 Existing installed base
2 Proprietary products
3 Growing distribution network

Where we compete:



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

Clients of

Key Clients

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

Products provided

- Siesta™ PSG – the ultimate in wireless Sleep recording systems
- Somté PSG™ – unique holter style full PSG system
- Somnea™ – unique holter style sleep screener
- Somté™ – unique holter style cardio-respiratory system
- Profusion PSG™– the next generation world class sleep diagnostics software
- Profusion Nexus™– laboratory management system
- E-Series™ EEG/PSG – network ready laboratory and portable Sleep system
- Safiro™ PSG – ideal for ambulatory applications in sleep
- P-Series™ – portable sleep recorder used by NASA and Sleep Heart Health Study
- S-Series™ – the original sleep recording system

Sleep Diagnostics

#1 IN AUST

#3 IN USA

MARKET POSITION

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

$155M p.a.

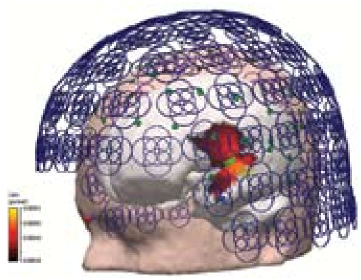
Brain Research

#1

GLOBAL MARKET POSITION

Key Clients

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



Products Provided:

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

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Compumedics

DWL
#1
EUROPEAN MARKET

Neuro Diagnostics
GLOBAL MARKET POSITION BEING BUILT

Neuro Medical Supplies
GLOBAL MARKET POSITION BEING BUILT

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

$890M p.a.

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

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

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

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

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

Products provided

Our comprehensive range of products produced for this market are:
- Airflow Sensor
- Electrodes
- Leads
- Chest Sensor
- EMG Needles
- Snoring Monitor

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Clinical Sleep Diagnostics:

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

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

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

Compumedics Profusion PSG3™ - the next generation of world class PSG acquisition, review and analysis software.

Number of known classified sleep disorders:

85

What is a Sleep Disorder?

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

How are Sleep Disorders Diagnosed?

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

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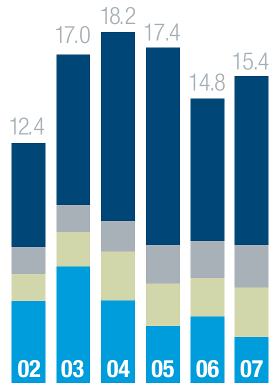
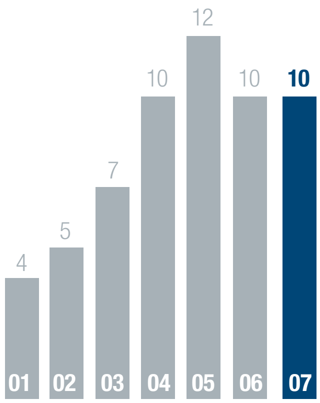


Sleep revenues by region $m

- Asia
- Europe
- Australia/NZ
- USA

Compumedics Somté PSG™ - the next generation of Somté recorders. Full PSG... absolutely anywhere.

Compumedics Nexus™ - a complete management system for the Sleep and Neurology laboratory.



US market share %

movements, patient position and responses to light, sound and temperature are monitored using ECG, EEG, EMG, SaO_2, $TcCO_2$ and CPAP (a Continuous Positive Air Pressure device). High-resolution monitors display on-line and off-line physiological waveforms as well as trend analysis data.

How Common are Sleep Disorders?

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

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

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

– Obesity
– Ageing
– Genetic predisposition
– Smoking
– Alcohol consumption

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

Links to Other Diseases

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

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

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

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Clinical Neurodiagnostics:

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

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

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

Compumedics Profusion EEG4™ - the next generation EEG acquisition and analysis software

Sales revenue in Australia increased from the previous financial year:

58%

Compumedics Neuvo™ - the ultimate long-term EEG monitoring system

What is clinical Neurodiagnostics?

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

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

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

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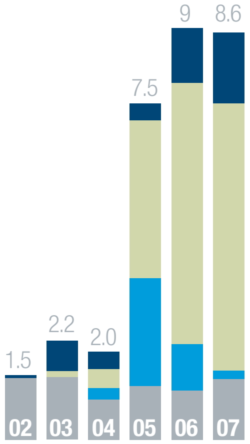
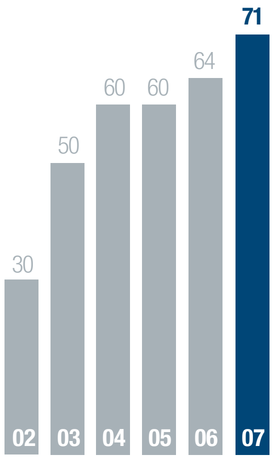


Neuroscience revenues by region $m

- Asia
- Europe
- Australia/NZ
- USA



Australian market share %

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

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

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

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

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

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

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

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

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

Compumedics Neuroscience competitive Advantages include:

1) A wide product range from basic clinical to advanced research methodologies

Through the Neuroscan acquisition techniques developed for research applications are now being integrated into the clinical field. This solidifies Compumedics’ commitment and reputation as a world-class developer of clinical neurodiagnostic systems.

2) Complete vertical integration of all operations.

Compumedics has integrated research, development, engineering and manufacturing and service in all facets of our business. This provides customers with a complete solution while allowing Compumedics to keep intense attention to detail and provide rapid change to ensure a quality product that continually exceeds market requirements.

3) Strong collaborative links

Strong collaborative links through extensive involvement in Neuroscience research activities with major teaching hospitals and Universities have enabled Compumedics to develop practical, state-of-the-art clinical Neurodiagnostics systems and solutions.

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

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" I have used the Neuroscan system for 15 years both clinically and in numerous research protocols studying human movement disorders. Its strong perfromance and versatility allows each acquistion to be specially designed. The off-line analysis package is state of the art and allows me to analyze results in various ways so as to get as much as possible out of my data."

JOHN N. CAVINESS, MD
PROFESSOR OF NEUROLOGY
MAYO COLLEGE OF MEDICINE

Compumedics Source5™ – a remarkably simple and accurate software that combines reconstructed electrical activity in the brain with anatomical or functional images.

Increase in MaglinkRT shipments from the previous financial year

60%

What is brain research?

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

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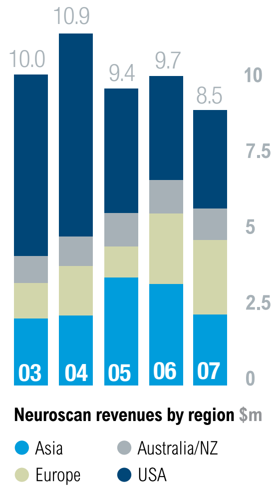


Neuroscan revenues by region $m

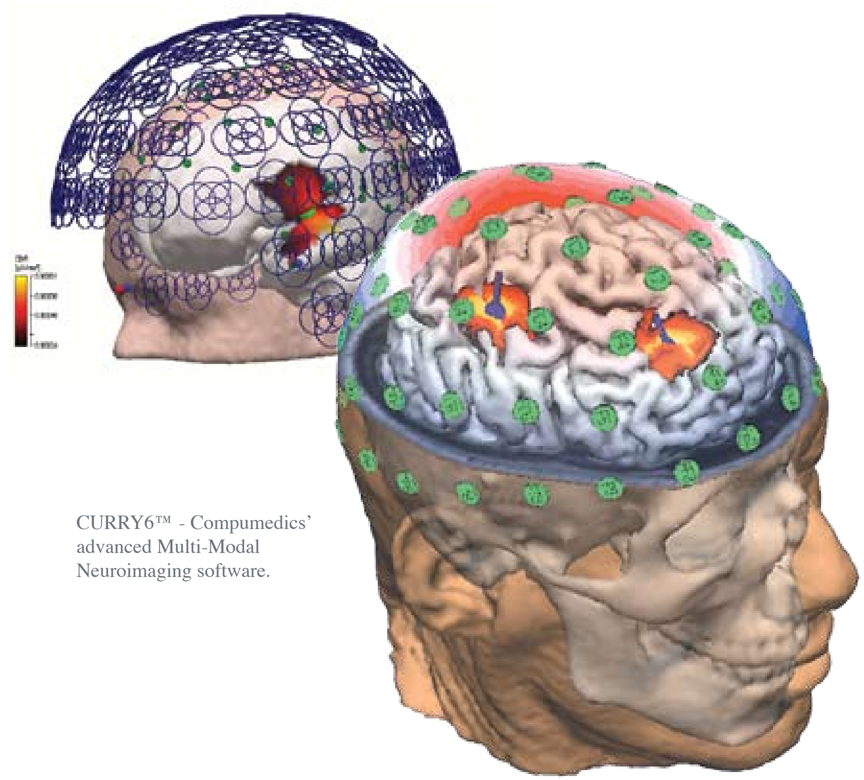
The majority of these key decision makers use Compumedics Neuroscan products.

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

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

Why is this important to Compumedics?

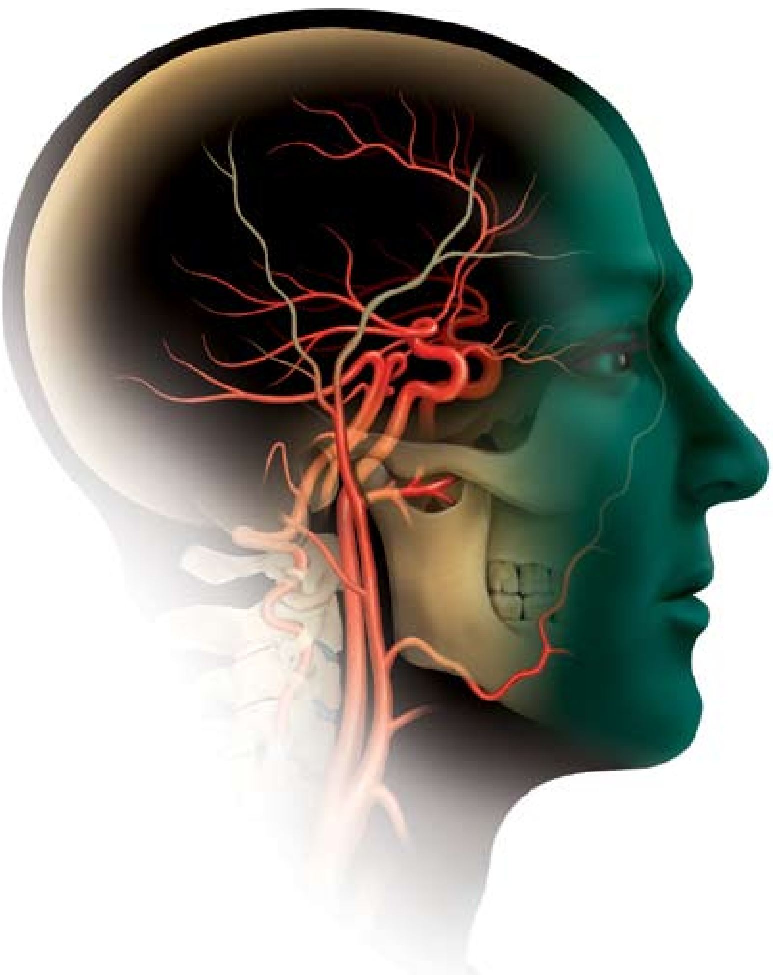
Leadership in objective and quantitative methods of EEG analysis and other brain research activities is important not only in terms of maintaining Neuroscan's pre-eminent position in this market and therefore its dominant market share, but to also lead the sleep and neurodiagnostic business technologies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



CURRY6™ - Compumedics' advanced Multi-Modal Neuroimaging software.

DWL: Doppler Sonography

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



What is Doppler Sonography?

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

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

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

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Multi-Dop® Pro
Portable basic system
for routine diagnostics.

Multi-Dop® X
Digital high-end system
for clinical routine and
monitoring examinations,
special function tests and
emboli detection.

Different kinds of Doppler Sonography

Transcranial Doppler Sonography
... is carried out using 1 or 2 MHz probes in pw mode only. The arteries of the Circle of Willis and the A. basilaris are examined.

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

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

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

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

Doppler Sonography Diagnostic/Application

Routine examinations are carried out to diagnose ...

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

or to perform

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

Doppler monitoring examinations for

- Doppler functional tests e.g. orthostasis
  - dynamic autoregulation
  - tipper table examinations
  - CO_2 – reactivity
  - visual stimulation
  - cognitive stimulation
  - emboli detection
- Monitoring during surgery
  - vessel surgery
  - reconstructions of aorta arch
  - organ transplantations
- Monitoring in intensive care units
  - vasospasms after sub-arachnoidal bleedings
  - after skull-brain trauma
  - hydrocephalus and meningitis
  - monitoring in stroke units e.g. indication to use Lyse and control during application of Lysing drugs.

Transcranial Doppler
Sonography using the
Multi-Dop® Pro.

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NeuroMedical Supplies:

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

"As a registered EEG and PSG technologist with many years of teaching experience, I knew I could not use the cap unless it met the same quality I could get with measuring the head and a standard electrode application. After using the cap, I am convinced that I can obtain the same quality of recordings in less time and maintain comfort for the patient. I also find that training new technologists to do accurate and consistent set-ups is much faster."

- MC R. EEG/EP T., RPSGT

What is NeuroMedical Supplies?

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

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

Installed Compumedics/ Neuroscan/DWL sites in the USA

over 2,200

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QuikCell™ – Unique liquid electrolyte application system

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

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

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

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

Quik-Cap PSG™ – Electrode application system for Sleep Diagnostics

Quik-Cap PSG is the first universal application system for sleep diagnostics. Compatible with virtually all manufacturers systems, the Quik-Cap PSG offers rapid placement, consistency for improved quality control, comfort for the patient and quick easy clean-up to enhance overall lab productivity.

US Market for Neuromedical supplies:

over $250M

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

over 2,100

Board of Directors:

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

Mr David Burton

Executive Chairman, CEO

Mr Burton, 48, is the founder, Chairman and CEO of Compumedics. Established in 1987, and under Mr. Burton's leadership, Compumedics was listed on the ASX in 2000, and has been awarded 24 awards for design, innovation, business and exports including the Australian Exporter of the Year in 1998 and Small Business of the Year in 1999.

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

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

Mr. Burton was presented the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology. He was awarded the 2003 Centenary Medal by the Prime Minister and Governor General of Australia for outstanding contribution to science and technology, particularly public science policy. In 2003, Mr Burton was awarded the Ernst & Young Victorian Entrepreneur of the Year award for technology, communications, E-commerce and life sciences. In 2007, Mr Burton was inducted into the Victorian Manufacturing Hall of Fame Honour Roll for pursuit of excellence in manufacturing.

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Professor Graham Mitchell AO
Non-Executive Director

Professor Mitchell, 66, is recognised as one of Australia's leading biological scientists. His expertise extends over a wide range of science and technology fields. He has a detailed knowledge of the academia and industry interface, has authored more than 350 publications, and received numerous awards for scientific achievement. In 1993, Professor Mitchell was appointed an Officer of the Order of Australia for services to science, in particular immunoparasitology. Professor Mitchell is a principal of Foursight Associates Pty Ltd., and Non-Executive Director of Antisense Therapeutics Limited, the Geoffrey Gardner Dairy Foundation and AVS Pty Ltd. He acts as a principal adviser to the Victorian Government through the Council for Knowledge, Innovation, Science and Engineering. He is joint Chief Scientist for the Department of Primary Industries. He is also a member of the World Health Organisation committee for special programs in tropical diseases.

Mr Alan Anderson
Non-Executive Director

Mr Anderson, 51, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented Compumedics for all legal matters in the USA since late 1998.

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

Senior Management:

David Burton
Executive Chairman, CEO

David Lawson
Chief Financial Officer
& Company Secretary

Warwick Freeman
Chief Technology Officer

Andrew Kegele
Business-Director, Australia
and New Zealand

Anthony Curro
Vice President – Sales, Americas

Christoph Witte
General Managing Director
DWL Compumedics Germany GmbH

Paul Spooner
Business-Director, Europe,
Middle East and Africa

Curtis Ponton
Vice President, Chief Scientist,
Neuroscan

Tom Lorick
Vice President, Marketing Americas

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Medical Advisory Board:

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

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

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

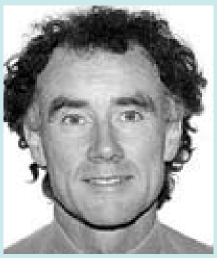
Professor Jack Clausen

B.Sc., M.D.

Chairman.

Prof. Clausen has over two decades of experience in developing national and international standards for medical instrumentation. In addition to his clinical activities, he has been a collaborator in multi-disciplinary research projects involving disorders of respiration during sleep, pulmonary physiology, cardiology, anaesthesiology, emergency medicine and radiology.

Prof. Clausen is currently Director, Pulmonary Function, ABG, Exercise and Sleep Disorders Laboratories, Division of Pulmonary and Critical Care Medicine, University of California at San Diego Medical Center, San Diego, California USA. He is also Clinical Professor of Medicine, University of California at San Diego, USA.



Professor Rob Pierce

M.B.B.S., M.R.A.C.P., F.R.A.C.P., M.D., F.C.C.P.

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

Prof. Pierce is a Director of Thoracic Services, Austin & Repatriation Medical Centre, Studley Road, Heidelberg, Australia and a Prof. of Respiratory Medicine, The University of Melbourne, Parkville, Victoria, Australia.

Dr. Yuji Takasaki,

B.Sc., M.D.

In addition to a broad background in pulmonary diseases, Dr. Takasaki has been a leader in Japan regarding disorders of respiration during sleep for almost two decades. In 1993 he supervised the establishment of the Sleep-Related Respiratory Disorders Centre at Tokai University, one of the first specialised sleep laboratories in Japan.

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

David Burton

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

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

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

Mr. Burton was presented the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology. He was awarded the 2003 Centenary Medal by the Prime Minister and Governor General of Australia for outstanding contribution to science and technology. In 2003, Mr Burton was awarded the Ernst & Young Victorian Entrepreneur of the Year award for technology, communications, E-commerce and life sciences. In 2007, Mr Burton was inducted into the Victorian Manufacturing Hall of Fame Honour Roll for pursuit of excellence in manufacturing.

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COMPUMEDICS LIMITED

'Defining *Life's* Signals'

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

20 YEARS of SLEEP DIAGNOSTIC EXCELLENCE 1987 - 2007

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Your Directors present their report on the consolidated entity referred to here after as the Group consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

DIRECTORS

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

- David Burton
- Alan Anderson
- Prof. Graham Mitchell

Mr. Bruce Rathie was a Director from the beginning of the financial year until to his retirement on December 31, 2006.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group were the research development, manufacture and distribution of medical diagnostic equipment. There have been no significant changes in the operation of the Group during the year.

DIVIDENDS – COMPUMEDICS LIMITED

The Directors have not declared a dividend in the current financial year (2006:nil).

REVIEW OF OPERATIONS

Information on the operations and financial position of the Group and its business strategies and prospects and a summary of consolidated revenue and results by business segments are set out below:

	Sales Revenues		Segment Result	
	2007 $'000s	**2006 $'000s**	**2007 $'000s**	**2006 $'000s**
Sleep	15,317	14,823	166	1,050
Brain Research	8,528	9,700	357	(601)
Neuroscience	8,614	8,706	(716)	(1,884)
Neuro Medical Supplies	4,191	4,355	913	945
Less: Unallocated revenue less unallocated expenses	–	–	–	(581)
Total	**36,650**	**37,584**	**720**	**(1,071)**
Unallocated income/expense			(597)	(524)
Tax expense			–	–
Profit / (loss) after interest and tax			123	(1,595)

Sleep

Revenue in the sleep diagnostic business at $15.3m was higher than the previous corresponding period. This was primarily due to improved sales in the US market as the Company has implemented and built on the changes to its sales and marketing teams in that market. The segment result in the sleep business was less than the previous year as a consequence of the additional investment into the US market. European sales improved year on year, whilst Asian sales were lower due to regulatory matters in China that are country specific and are expected to be resolved in the curent year.

Brain Research

The segment result for the Neuroscan business improved significantly over the previous years as a result of expense reductions and tighter management of the business. Revenues were 12% lower primarily due to lower sales in the Asian markets as sales were stable in the US and Europe and grew in Australian markets.

Neuroscience

Revenues in the Neuroscience business were equivalent with last year at $8.6m versus $8.7m for the prior year, however the segment result was significantly improved due to expense reductions and tighter business control. The segment is still loosing money as the group is investing heavily in its new long term monitoring device which is due for release in the 2008 financial year.

NeuroMedical Supplies

Revenue in the NeuroMedical supplies business fell by 4% to $4.2m compared to the previous corresponding period. The supplies business represented 11% of total revenues for the year ended 30 June 2007, which was consistant with the previous year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors note that subsequent to the balance sheet date the Group has been offered and has accepted new banking facilities. The Group expects to settle with its new bankers during October 2007. Apart from the above at the date of this report the Directors are not aware of any other events occurring after the balance sheet date that would materially alter this report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

INFORMATION ON DIRECTORS

Mr David Burton, Chaiman and Chief Executive Officer, Age 48.

Experience and expertise

Founder and major shareholder of Compumedics. Extensive experience in the development, design, manufacture and sale of medical devices and the development of the business

Other current directorships

Intellirad Pty Ltd

D&DJ Burton Holdings Pty Ltd

Electro Molecular Pty Ltd

Former directorships in past 3 years

None

Special responsibilities

Chariman of the Board

Member of the remuneration committee

Interests in shares and options

91,972,058 ordinary shares in Compumedics Limited

222,222 options over ordinary shares in Compumedics Limited

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Professor Graham Mitchell AO, Indepedent Non–Executive Director, Age 66.

Experience and expertise

Subsantial scientific and academic qualifications coupled with significant directorship experience

Other current directorships

Antisense Therapeutics Ltd

AVSP Pty Ltd, Antisense Therapeutics Pty Ltd

Geoffrey Gardner Dairy Foundation

Former directorships in past 3 years

None

Special responsibilities

Member of the Remuneration Committee

Interests in shares and options

None

Mr Alan Anderson, Non–Executive Director, Age 51.

Experience and expertise

Extensive legal experience particularly in intellectual property litigation in both defence and offence

Other current directorships

None

Former directorships in past 3 years

None

Special responsibilities

Chairman of the Remuneration Committee

Chairman of the Audit Committee

Interests in shares and options

89,655 ordinary shares in Compumedics Limited

Retirement, election and continuation in office of directors

Bruce Rathie resigned as a director on 31 December 2006.

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2007, and the numbers of meetings attended by each Director were:

	Full meeting of Directors		Meeting of Committees: Audit		Meeting of Committees: Remuneration	
	A	**B**	**A**	**B**	**A**	**B**
David Burton	11	11	–	–	1	1
Prof Graham Mitchell	9	10	–	–	1	1
Alan Anderson	8	10	3	3	1	1
Bruce Rathie (retired Dec 06)	6	6	2	2	–	–

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

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share–based compensation
E. Additional information

The information provided under headings A–D includes remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Regulations 2001* which have not been audited.

A. Principles used to determine the nature and amount of remuneration (audited)

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

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

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

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Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

The board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendation on remuneration packages and other terms of employment for executive directors, other senior executives and non–executive directors. The Corporate Governance Statement provides further information on the role of this committee.

Non–executive directors

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

The Chairman's fees are determined independently to the fees of non–executive directors based on comparative roles in the external market. The Chairman is not present for any discussions relating to determination of his own remuneration.

Non–executive directors do not receive share options.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July, 2006. The Chairman's remuneration is inclusive of committee fees while non–executive directors who chair a committee receive additional yearly fees.

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

The following fees have been applied:

	From 1 July 2006 to 30 June 2007	**From 1 July 2006 to 30 June 2007**
	$	**$**
Base fees		
Chairman	NIL	NIL
Other non–executive directors	30,000	30,000
Additional fees		
Audit committee – chairman	5,000	5,000
Audit committee –member	2,500	2,500
Remuneration committee – chairman	5,000	5,000
Remuneration committee – member	2,500	2,500

Retirement allowances for directors

Non–executive directors have not and will not be entitled to retirement allowances.

Executive pay

The executive pay and reward framework has 5 components:

- base pay and benefits
- short–term performance incentives
- long–term incentives through participation in the Compumedics Limited Employee Option Plan
- other remuneration such as superannuation, and
- long term equity linked incentive program specifically for the head of the Medical Innovations Division.

The combination of these comprises the executive's total remuneration.

Base pay

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

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

There are no guaranteed base pay increases fixed in any executive's contract.

Benefits

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

Superannuation

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

Short–term incentives

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

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

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

For the year ended 30 June 2007, the KPIs linked to short term incentive plans were based on Group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non–financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the executive team.

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

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

The STI target annual payment is reviewed annually.

Long–term incentives

The Company has instigated one long–term incentive program in the current year. At 30 June 2007 no other long–term incentive plans were in place for any other Director or key management personnel.

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Medical Innovation Long Term Performance Plan (MI–LTPP)

The Group has formalised and gained approval at last year's annual general meeting for the MI–LTPP for the head of the Medical Innovations Division ("Division Head"), who is currently the Executive Chairman. The rationale of the MI–LTPP is to reward the Division Head where future commercial projects are met on the following criteria:

1. the future commercial project is based on innovative, novel and patentable technology;
2. the patented technology is supplementary to, but consistent with, the ongoing businesses of Compumedics Limited; and
3. there is significant risk attached to the development of the intellectual property or technology and the commercialisation thereof.

On the basis that these 3 criteria exist, and, as determined by the Remuneration Committee, a commercial project will be eligible for inclusion under the MI–LTPP. At 30 June 2007 the Remuneration Committee has approved several projects that are eligible under the MI–LTPP subject to the parameters discussed below.

The parameters of the MI–LTPP include that the Division Head will be entitled to an incremental 8% equity in any subsidiary entities of the Company that develop projects that meet all of criteria 1 to 3. The 8% equity will only deliver value to the Divisional Head where value is created for the whole company, in which case the Company receives 92% of the incremental value created.

The entitlement will be calculated after repayment of any initial costs of establishment or development costs outlaid by Compumedics. The Directors have sought and gained expert advice that the entitlements under the plan are remuneration for the purposes of accounting standards and are fair and reasonable, having regard to relevant circumstances.

There has been no equity awarded under the MI–LTPP to the Division Head during the year ended 30 June 2007.

Compumedics Employee Option Plan

Information on the Compumedics Option Plan is set out in Note 27 of the Financial Statements.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Compumedics Limited and the Compumedics Group are set out in the following tables.

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Key management personnel and other executives of Compumedics Limited.

The key management personnel of Compumedics Limited includes the directors as per pages 31 to 32 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- David Lawson
- Warwick Freeman
- Kerry Hubrick
- Andrew Kegele
- Paul Spooner

The key management personnel of the Group are the directors of Compumedics Limited as per pages 31 to 32 above and those executives that report directly to the Chief Executive Officer being:

- David Lawson
- Warwick Freeman
- Kerry Hubrick
- Andrew Kegele
- Anthony Curro
- Christoph Witte
- Paul Spooner
- Curtis Ponton
- Tom Lorick

Key management personnel and other executives of Compumedics Limited.

2007	**Short–term employee benefits**			**Post–employment benefits**		**Long–term benefits**	**Share–based payment**	
Name and fees	**Cash salary and fees $**	**Cash bonus $**	**Non–monetary benefits $**	**Super–annuation $**	**Retirement benefits $**	**Long service leave $**	**Options $**	**Total $**
Non executive directors								
Alan Anderson	38,750	–	–	–	–	–	–	38,750
Prof. Graham Mitchell	37,529	–	–	3,096	–	–	–	40,625
Bruce Rathie (July 06 – Dec 06)	17,500	–	–	–	–	–	–	17,500
Sub–total non executive directors	93,779	–	–	3,096	–	–	–	96,875
Executive directors								
David Burton	341,550	111,333	–	–	–	–	–	452,883
Other key management personnel								
David Lawson^	188,370	–	–	16,556	–	3,602	–	208,528
Warwick Freeman^	194,304	–	–	14,507	–	1,624	–	210,435
Kerry Hubrick^	157,384	–	–	14,164	–	–	–	171,548
Andrew Kegele^	130,000	36,445	–	13,630	–	4,034	–	184,109
Paul Spooner^	196,098	36,822	–	–	–	–	–	232,920
Total key management personnel compensation	1,301,485	184,600	–	61,953	–	9,260	–	1,557,298

^denotes one of the 5 highest paid executives of the company, as required to be disclosed under *the Corporations Act 2001*.

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Key management personnel and other executives of the group.

2007	Short–term employee benefits			Post–employment benefits		Long–term benefits	Share–based payment	
Name and fees	**Cash salary and fees $**	**Cash bonus $**	**Non–monetary benefits $**	**Super–annuation $**	**Retirement benefits $**	**Long service leave $**	**Options $**	**Total $**
Non executive directors								
Alan Anderson	38,750	–	–	–	–	–	–	38,750
Prof. Graham Mitchell	37,529	–	–	3,096	–	–	–	40,625
Bruce Rathie (July 06 – Dec 06)	17,500	–	–	–	–	–	–	17,500
Sub–total non executive directors	93,779	–	–	3,096	–	–	–	96,875
Executive directors								
David Burton	341,550	111,333	–	–	–	–	–	452,883
Other key management personnel								
David Lawson	188,370	–	–	16,556	–	3,602	–	208,528
Warwick Freeman	194,304	–	–	14,507	–	1,624	–	210,435
Kerry Hubrick	157,384	–	–	14,164	–	–	–	171,548
Andrew Kegele	130,000	36,445	–	13,630	–	4,034	–	184,109
Anthony Curro^	263,669	147,762	–	–	–	–	–	411,431
Chistoph Witte^	212,409	–	–	24,942	–	–	–	237,351
Paul Spooner^	196,098	36,822	–	–	–	–	–	232,920
Curtis Ponton^	221,058	–	–	–	–	–	–	221,058
Tom Lorick^	188,201	21,703	–	–	–	–	–	209,904
Total key management personnel compensation	2,186,822	354,065	–	86,895	–	9,260	–	2,637,042

^denotes one of the 5 highest paid executives of the group, as required to be disclosed under *the Corporations Act 2001*.

Key management personnel and other executives of the group.

2006	Short–term employee benefits			Post–employment benefits		Long–term benefits	Share–based payment	
Name and fees	**Cash salary and fees $**	**Cash bonus $**	**Non–monetary benefits $**	**Super–annuation $**	**Retirement benefits $**	**Long service leave $**	**Options $**	**Total $**
Non executive directors								
Koichiro Koike (July05–Sept 05)	45,000	–	–	–	–	–	–	45,000
Alan Anderson	37,500	–	–	–	–	–	–	37,500
Prof. Graham Mitchell	29,575	–	–	2,925	–	–	–	32,500
Bruce Rathie	35,000	–	–	–	–	–	–	35,000
Sub–total non executive directors	147,075	–	–	2,925	–	–	–	150,000
Executive directors								
David Burton	341,550	33,000	–	–	–		–	374,550
Other key management personnel								
Warwick Freeman	199,755	–	–	14,998	–	5,541	–	220,294
David Lawson	188,370	–	–	16,380	–	12,852	–	217,602
Christoph Witte^	211,839	–	–	24,414	–	–	–	236,253
Anothony Curro^	264,869	108,632	–	–	–	–	–	373,501
Tom Lorick^	215,798	–	–	–	–	–	–	215,798
Curtis Ponton^	234,342	–	–	–	–	–	–	234,342
Paul Spooner^	194,950	36,563	–	–	–	–	–	231,513
Tim Gresham	96,874	44,238	–	12,700	–	–	–	153,812
Total key management personnel compensation	2,095,422	222,433	–	71,417	–	18,393	–	2,407,665

^denotes one of the 5 highest paid executives of the group, as required to be disclosed under *The Corporations Act 2001*.

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The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed Remuneration		At Risk STI		At Risk LTI	
	2007	2006	2007	2006	2007	2006
Directors of Compumedics Limited						
David Burton	75%	91%	25%	9%	–	–
Alan Anderson	100%	100%	–	–	–	–
Prof Graham Mitchell	100%	100%	–	–	–	–
Other key management personnel of Compumedics Limited						
David Lawson	100%	100%	–	–	–	–
Warwick Freeman	100%	100%	–	–	–	–
Kerry Hubrick	100%	100%	–	–	–	–
Andrew Kegele	80%	80%	20%	20%	–	–
Paul Spooner	69%	69%	31%	31%	–	–
Other key management personnel of the Group						
Anthony Curro	63%	71%	37%	19%	–	–
Chistoph Witte	100%	100%	–	–	–	–
Curtis Ponton	100%	100%	–	–	–	–
Tom Lorick	89%	100%	11%	–	–	–

C. Service agreements (audited)

On appointment to the Board, all non executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office director.

Remuneration and other terms of employment for the Chief Financial Officer and the other key management personnel are also formalized in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and participation remuneration are set out below.

All contracts with executives may be terminated earlier by either party, subject to termination payments as detailed below.

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2007 of AUD341,550, to be reviewed annually by the remuneration committee. David Burton is also entitled to participate in the Medical Innovation Long Term Performance Plan as approved at last year's Annual General Meeting
- Performance bonus – AUD111,333 was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 1 July 2006
- David Burton does not have a formal service agreement

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2007 of AUD204,928, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD208,811, to be reviewed annually by the remuneration committee
- Car allowance of $33,112
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Kerry Hubrick, *Legal Counsel and Patent Attorney*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD171,548, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Andrew Kegele, *Director Australia and New Zealand*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2007 of AUD143,630, to be reviewed annually by the remuneration committee
- Performance bonus – AUD36,445, was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 1 July 2006
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Anthony Curro, *Vice President, Sales, Americas*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD206,954, to be reviewed annually by the CEO
- Performance bonus – USD115,978, was paid as a performance bonus on achievement of specific sales goals during the financial year
- Review of last salary – 1 July 2007
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Christoph Witte, *Managing Director, DWL*

- Base salary inclusive of superannuation, for the year ended 30 June 2007 of EUR135,480, to be reviewed annually by the remuneration committee
- Car Allowance of EUR7,080
- Christoph Witte's service agreement commenced 1 September 2004 with a 2 year fixed notice period from 1 September 2005, after which the notice period reduces proportionately to six months at 1 September 2007

Paul Spooner, *Business Director, Europe and the Middle East*

- Base salary for the year ended 30 June 2007 of AUD196,098, to be reviewed annually by the CEO
- Performance bonus – AUD36,822, was paid as a performance bonus on achievement of specific sales goals during the financial year
- Review of last salary – July 2007
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

Curtis Ponton, *Vice President, Chief Scientist Neuroscan*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD173,508, to be reviewed annually by the CEO
- Review of last salary – July 2007
- The service agreement takes the form of an actual agreement which incorporates Compumedics conditions of employment, and other conditions and is for 3 years
- Payment of a termination benefit on early termination of the agreement by the company, other than for gross misconduct, equal to base salary for 6 months

Tom Lorick, *Vice President, Marketing, Americas*

- Base salary inclusive of US benefits for the year ended 30 June 2007 of USD147,719, to be reviewed annually by the CEO
- Review of last salary – July 2007
- Performance bonus – USD17,305, was paid as a performance bonus on achievement of specific sales goals during the financial year
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions

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D. Share–based compensation (audited)

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan.

Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests and is exercisable on the following basis:

(i) 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant

(ii) 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant

(iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date of the grant

When exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bous.

The Company issued 70,423 new shares to D&DJ Burton Holdings Pty Ltd in lieu of a bonus payment received as options in October 2004.

The Company did not have any other share based payments in the full year ended 30 June 2007.

Un–issued ordinary shares in Compumedics Limited under option at the date of this report held by directors are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
20 Dec 2002	20 Dec 2007	$0.01	$0.01	At grant date
11 Mar 2004	11 Apr 2009	$0.31	$0.31	At grant date

E. Additional information (unaudited)

For cash bonuses included in the tables set out on pages 37 and 39 the percentage of the available bonus that was paid in the financial year and the percentage that was forfeited because that person did not meet the service and performance criteria is set out below.

Name	Paid	Forfeited
David Burton	100%	–
Andrew Kegele	100%	–
Anthony Curro	100%	–
Paul Spooner	42%	58%

Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in Note 28 to the financial statements.

SHARES UNDER OPTION

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

Date options granted	Number under option	Issue Price of Shares ($)	Expiry Date
New Issues for the year ended 30 June 2002	220,423	0.01 to 0.95	Various
(adjusted for retirements)	(120,000)	0.95	1 Mar 2006
New Issues for the year ended 30 June 2003	222,222	0.01	24 Dec 2007
New Issues for the year ended 30 June 2004	50,000	0.43	8 Dec 2008
(adjusted for retirements)	(50,000)	0.43	8 Dec 2008
New Issues for the year ended 30 June 2004	50,000	0.31	11 Apr 2009
New Issues for the year ended 30 June 2005	–	–	–
New Issues for the year ended 30 June 2006	–	–	–
New Issues for the year ended 30 June 2007	–	–	–
(adjusted for retirements)	(20,000)	0.55	6 Mar 2007
(adjusted for retirements)	(10,000)	0.60	1 Aug 2006
Options exercised in the year ended 30 June 2007	(70,423)	0.01	31 Oct 2006
Total	**272,222**		

There were no new options issued during the year.

INSURANCE OF OFFICERS

During the financial year, Compumedics Limited paid premiums of $27,412 to insure the Directors and Secretary of the Company and its Australian–based controlled entities, and the Executives and other senior managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

NON–AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non–audit services provided during the year are set out below.

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

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- all non–audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non–related audit firms:

	Consolidated	
	2007 **$**	**2006** **$**
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *the Corporations Act 2001*	160,000	222,079
Related practices of PricewaterhouseCoopers Australian firm	29,958	54,190
Total remuneration for audit services	**189,958**	**276,269**
2. Non–audit services		
Taxation services		
Related practices of PricewaterhouseCoopers Australian firm		
Tax compliance services	12,486	14,037
Total remuneration for taxation services	**12,486**	**14,037**
Total remuneration for non–audit services	**12,486**	**14,037**

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of *the Corporations Act 2001* is set out on page 45

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

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

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

D. Burton
Director

Melbourne
30 September 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8603 1999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Compumedics Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of *the Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.
This declaration is in respect of Compumedics Limited and the entities it controlled during the period.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
30 September 2007

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Compumedics Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

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

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

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

THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles of the Board charter. The charter details the Board's composition and responsibilities. This charter is currently being reviewed and will be formally adopted by the Board as part of the current review process, which is expected to be completed by 30 June, 2008.

Board composition

The charter states:

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

Responsibilities

The responsibilities of the Board include:

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

Board members

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

The Board seeks to ensure that:

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

Directors' independence

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

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

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

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

At the date of this report Prof. Graham Mitchell, a director of the company, is considered independent according to the governance provisions laid down by the Australian Stock Exchange.

Term of office

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

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

Chairman and Chief Executive Officer (Executive Chairman)

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

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

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Commitment

The Board held eleven Board meetings.

Non–executive directors are expected to spend at least 40 days a year preparing for and attending board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed in the Directors' Report page 33.

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

It is the companies practice to allow its executive directors to accept appointments outside the company with prior written approval of the board. No appointments of this nature were accepted during the year ended 30 June 2007.

The commitments of non–executive directors are considered by the nomination committee prior to the director's appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

Conflicts of interest

Entities connected with Mr Alan Anderson had business dealings with the consolidated entity during the year, as described in note 28 to the financial statements. In accordance with the board charter, the directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition those directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

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

Performance assessment

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

Corporate reporting

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

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

Board committees

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

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

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

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

REMUNERATION COMMITTEE

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

A Anderson (Chairman)

G Mitchell

and the following executive director:

D Burton.

Details of these directors' attendance at remuneration committee meetings are set out in the Directors' report page 33.

The remuneration committee operates in accordance with its draft charter. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non–executive directors.

Committee members receive regular briefings from external remuneration expert on recent developments on remuneration and related matters.

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

Further information on directors' and executives' remuneration is set out in the Directors' report and note 23 to the financial statements.

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

AUDIT COMMITTEE

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

B Rathie (Chairman retired December 31, 2006)

A Anderson (Chairman appointed January 1, 2007)

Details of these directors' qualifications and attendance at audit committee meetings are set out in the Directors' report pages 31 to 33.

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

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

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

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management, and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board
- reviews the processes the CEO and CFO have in place to support their certifications to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.

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

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EXTERNAL AUDITORS

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

It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

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

RISK ASSESSMENT AND MANAGEMENT

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

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

Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

CODE OF CONDUCT

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

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

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

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

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

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

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

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

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

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

Contents

This financial report covers both Compumedics Limited as an individual entity and the consolidated entity consisting of Compumedics Limited and its subsidiaries. The financial report is presented in the Australian currency.

Compumedics Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Compumedics Limited
30–40 Flockhart Street
Abbotsford. Vic. 3067
Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 30 to 31 of the Directors' report, which are not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2007. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our investors on our website: www.compumedics.com

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Income Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Revenue from continuing operations	3	36,734	37,703	17,866	21,047
Other income	4	137	1,173	77	1,079
Cost of sales		(15,384)	(18,024)	(6,952)	(9,765)
Administration		(4,277)	(4,796)	(1,469)	(2,733)
Sales & Marketing		(10,573)	(9,973)	(6,836)	(7,234)
Research & Development		(4,600)	(7,312)	(1,906)	(4,795)
Finance costs	5	(871)	(643)	(729)	(611)
Net foreign exchange gain/(loss)	5	(1,043)	277	(1,025)	483
Profit / (Loss) before income tax expense		123	(1,595)	(974)	(2,529)
Income tax expense	6	–	–	–	–
Profit / (Loss) after income tax expense		123	(1,595)	(974)	(2,529)
Profit / (Loss) attributable to members of Compumedics Limited		123	(1,595)	(974)	(2,529)

Earnings per share for profit attributable to the ordinary equity holders of the company		**Cents**	**Cents**
Basic earnings per share	32	0.1	(1.1)
Diluted earnings per share	32	0.1	(1.0)

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

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Balance Sheets
AS AT 30 JUNE 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
CURRENT ASSETS					
Cash and cash equivalents	7	363	3,319	77	2,845
Trade and other receivables	8	12,464	13,112	5,952	6,330
Inventories	9	4,991	4,826	2,964	2,669
TOTAL CURRENT ASSETS		17,818	21,257	8,993	11,844
NON–CURRENT ASSETS					
Receivables	10	–	–	3,733	5,245
Investments in subsidiaries	11	–	–	–	435
Property, plant and equipment	12	613	918	371	540
Intangible assets	13	820	–	820	–
TOTAL NON–CURRENT ASSETS		1,433	918	4,924	6,220
TOTAL ASSETS		19,251	22,175	13,917	18,064
CURRENT LIABILITIES					
Trade and other payables	14	7,091	7,128	3,661	4,153
Borrowings	15	3,396	3,196	2,478	2,280
Tax liabilities	16	–	72	–	–
Deferred tax liabilities	6	73	–	73	–
Provisions	17	697	640	559	509
Deferred revenue	18	1,059	1,115	226	214
TOTAL CURRENT LIABILITIES		12,318	12,151	6,999	7,156
NON–CURRENT LIABILITIES					
Borrowings	19	7	3,247	7	3,247
Provisions	20	12	60	12	60
TOTAL NON–CURRENT LIABILITIES		19	3,307	19	3,307
TOTAL LIABILITIES		12,337	15,458	7,018	10,463
NET ASSETS		6,914	6,717	6,899	7,601
EQUITY					
Contributed equity	21	29,492	29,020	29,492	29,020
Reserve	22	(783)	(385)	(200)	–
Accumulated losses	22	(21,795)	(21,918)	(22,393)	(21,419)
TOTAL EQUITY		6,914	6,717	6,899	7,601

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

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Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Total equity at the beginning of the financial year	6,717	8,139	7,601	10,130
Exchange differences on translation of foreign operations	(198)	173	–	–
Profit/(Loss) recognised directly in equity	**(198)**	**173**	**–**	**–**
Profit/(Loss) for the full year	123	(1,595)	(974)	(2,529)
Total recognised income and expenses for year	(75)	(1,422)	(974)	(2,529)
Transactions with equity holders in their capacity as equity holders				
• Value of conversion rights on issue of RCNs	345	–	345	–
• Deferred tax liability attributable to conversion rights on issue of RCNs	(73)	–	(73)	–
Total equity at the end of the financial year	**6,914**	**6,717**	**6,899**	**7,601**

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

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Cash flow statements

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		37,178	36,938	17,927	18,836
Payments to suppliers and employees (inclusive of goods and services tax)		(35,762)	(39,503)	(18,883)	(19,589)
Interest and other costs of finance paid		(705)	(643)	(705)	(643)
Interest received		84	119	84	119
Receipts from other income		52	–	52	–
Receipts from legal settlement net of associated expenses		–	1,711	–	1,711
Net cash inflow (outflow) from operating activities	**31**	**847**	**(1,378)**	**(1,525)**	**434**
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(160)	(112)	(135)	(52)
Payment for intangible assets		(797)	–	(797)	–
Net cash inflow (outflow) from investing activities		**(957)**	**(112)**	**(933)**	**(52)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		–	371	–	–
Proceeds from borrowings – with related parties		–	1,000	–	1,000
Intercompany transfers from Compumedics Limited to Compumedics USA Ltd		–	–	–	(596)
Intercompany transfer from Compumedics Limited to Compumedics Germany GmbH		–	–	(666)	(1,150)
Intercompany transfers to Compumedics Limited from Compumedics USA Ltd		–	–	2,001	699
Intercompany transfer from Compumedics Germany GmbH to Compumedics Limited		–	–	1,101	–
Payments of finance leases		(103)	(183)	(103)	(183)
Repayment of borrowings		(2,714)	(710)	(2,662)	(710)
Net cash inflow (outflow) from financing activities		**(2,817)**	**478**	**(329)**	**(940)**
Net increase (decrease) in cash and cash equivalents		**(2,927)**	**(1,012)**	**(2,787)**	**(558)**
Cash and cash equivalents at the beginning of the year	**7**	**2,354**	**3,328**	**2,845**	**3,365**
Effects of exchange rate changes on cash and cash equivalents		19	38	19	38
Cash and cash equivalents at the end of the financial year	**7**	**(555)**	**2,354**	**77**	**2,845**

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

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Contents of the Notes to the Financial Statements

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NOTE 1.

1A 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 years presented, unless otherwise stated.

The financial report includes separate financial statements for Compumedics Limited as an individual entity and the consolidated entity consisting of Compumedics Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, 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 Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Compumedics Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to the parent entities in respect of certain disclosure requirements contained in AASB132 *Financial instruments: Disclosure and Presentation.*

Early adoption of Standards

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 Presentation of Financial Statements (issued Oct 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical Cost Convention

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

Critical Accounting Estimates

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1C.

Going Concern

During the full year ended 30 June 2007 the consolidated entity (Compumedics) returned to an operating profit of $0.1m and positive cash flows from operations of $0.8m. However repayment of borrowings of $2.7m contributed to a net decrease of cash of $2.9 million during the full year ended 30 June 2007.

The past financial year has seen the initial evidence of an aggressive restructure across the sales and marketing functions in each geographic territory of the business conducted in late 2005 and during 2006. This was combined with further restructuring of the operational facets of the business and the reduction of cash expenses. These cost reductions have largely been the result of head count reductions which have been implemented across all parts of the business.

The focus on cost reductions has continued during the financial year ended 30 June 2007.

The Directors of Compumedics will continue to maintain vigorous control of its costs to give the company the best opportunity of continuing to generate profits without jeopardizing the sustainability of the business over the longer term.

The Directors note that the Group has been offered and accepted new banking facilities (The Directors expect to complete the transition during October 2007).

The Directors note that the decision to change banks was a direct consequence of an untenable and uncommercial arrangement with its existing bank both in terms of costs of financing and debt repayment requirements, particularly in light of the significant financial turnaround achieved to date by the Company. One outcome of these arrangements was that the Company did not achieve what, the directors believe, was an un–realistic interest rate cover ratio for the year ended June 30. All other covenants tested throughout the financial year were achieved and all debt repayment obligations were met.

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The Directors also continue to progress a number of additional strategies in order to potentially raise capital or reduce costs further should the need arise.

The Directors will continue to focus efforts on the earnings turnaround that was evident during the financial year ended 30 June 2007. The turnaround in profitability and cash generation remains very dependant on margin improvement and also Compumedics' ability to reduce debtor days through greater compliance with sales terms.

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

(b) Principles of consolidation

(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 2007 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. The existence and effect of potential voting rights that are currently exercisable or conveyable are considered when assessing whether the group controls another entity.

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. Investments in subsidiaries are accounted for at cost in the individual finance statements of Compumedics Limited.

(c) Segment reporting

A business segment is identified for 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, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

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

- 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.

Goodwill and fair value adjustments on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(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, rebates, duties and taxes paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows

i. Sale of Goods. This is typically for the sale of diagnostic systems, including hardware and software.

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

ii. Services. This is typically for technical support contracts post the sale and installation of the diagnostic systems.

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

(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 and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

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 elected not to implement the tax consolidation legislation.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). 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 short term and long term payables. Each lease payment is allocated between the liability and finance costs. 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 is 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 not transferred to the group as lessee are classified as operating leases (note 26). 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight–line basis over the lease term (note 26).

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(h) Business Combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, 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 fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (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.

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

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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). which are largely independent of the cash inflows from other assets or groups of assets (cash–generating units). Non–financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured and at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement no more than 45 days from shipment of goods. 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 impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re–organisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. 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 original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

(l) Inventories

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

(m) Investments and other financial assets

Classification

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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 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 trade and other receivables in the balance sheet (notes 8 and 10).

(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. If the Group were to sell other than an insignificant amount of held–to–maturity financial assets, the whole category would be tainted and reclassified as available–for–sale. Held–to–maturity financial assets are included in non–current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(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.

Recognition and de–recognition

Regular purchases and sales of financial assets are recognised on trade–date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are de–recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available–for–sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non monetary securities classified as available for sale are recognised in equity.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

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Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

(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.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost revalued amount, net of their residual values, over their estimated useful lives. The expected useful lives for all categories of property, plant and equipment are between 2 and 6 years.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash–generating units for the purpose of impairment testing. Each of those cash–generating units represents the Group's investment in each country of operation by each primary reporting segment (note 2).

(ii) 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.

(iii) 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.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which is 5 years.

(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. The amounts are unsecured and are usually paid within 45 days of recognition.

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(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. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw–down of the facility, are recognised as pre–payments and amortised on a straight–line basis over the term of the facility.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non–convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(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 incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Borrowing costs include:

- Interest on bank overdrafts and short–term and long–term borrowings,
- Finance lease charges,
- Certain exchange differences arising from foreign currency borrowings,
- Interest payable on the RCN's issued to D&DJ Burton Holdings Pty Ltd, and
- 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 probable 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.

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(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 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
Share–based compensation benefits are provided to employees via the Compumedics Employee Option Plan Information relating to this scheme is set out in note 27.

The fair value of options granted under the Compumedics Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non–market vesting conditions (for example, profitability and sales growth targets). Non–market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(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 Group 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 financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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

(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.

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.

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(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005–10 Amendments to Australian Accounting Standards [AASB 132, AASB 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 1 January 2007. The Group has not adopted the standards early. Application 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 Group's and the parent entity's financial instruments.

(ii) AASB–I 10 Interim Financial Reporting and Impairment

AASB–I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

(iii) AASB 8 Operating Segments and AASB 2007–3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007–3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision–makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(z) 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.

(aa) 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.

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1B Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by a central Accounting department.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar and the Euro.

The Group does not use derivative financial instruments.

The Group in establishing its budget for any given future period has to make an estimate of what the exchange rate between the US and the Australian dollar will be and also what the exchange rate between the European Euro and the Australian dollar will be.

These exchange rate estimates are required so as the US and European businesses can be forecast in Australian dollars at a consolidated Group level.

As the Group cannot control the markets that set these exchange rates it is highly unlikely the Company will forecast accurately what the actual exchange rates would be in any given period.

As a consequence the Group is subject to variations in its financial performance dependent upon the final USD/AUD and EUR/AUD exchange rates in any given period.

The Group's financial performance in any given period is affected in two ways by changes in the USD/AUD and EUR/AUD exchange rates. Firstly the straight conversion of the US business and the European business from US dollars and the Euro into Australian dollars and secondly the conversion of the parent company's investment in both these businesses.

A 1 cent rise or fall in the USD/AUD exchange rate has an approximate impact on revenues for the year ended 30 June 2007 of $0.2m on conversion of the US business. The profit after tax line impact is negligible. Similarly for the European business a 1 cent rise or fall in the EUR/AUD exchange rate has an approximate impact on revenues for the year ended 30 June 2007 of $0.1m and at the profit after tax line the impact is negligible.

(ii) Price risk

The Group is not exposed to equity securities price risk nor commodity price risk.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group is considering its alternatives in this regard.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest–bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest–rate risk arises from long–term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest–rate risk. Borrowings issued at fixed rates expose the Group to fair value interest–rate risk. All borrowings during the year are at variable rates.

1C Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Deferred revenues

In calculating the Group's deferred revenues at any point in time the Group makes a judgment regarding the typical costs the Group will incur in future periods for sales of goods that it has booked as revenue in the current and past periods.

The Group reviews its current cost for installation and training as a percentage of current revenues in determining an appropriate future cost for installation and training obligations that are still to be performed. Based on current installation and training costs as an estimate for future installation and training costs 12% (deferral rate) of the total dollar value of all current sales where a future installation and training obligation exists is deferred until such time as the future installation and training the obligations has been extinguished.

Should the future costs of installation and training rise rapidly this could give rise to percentage rate used to defer revenue increasing. For example in the past a deferral rate of 20% has existed, whereby all current revenues with a future installation and training obligation had 20% of the total dollar value of the sale deferred. Had this deferral rate been used for calculating the deferred revenue for the year ended 30 June 2007 the impact would have been to reduce revenues by $0.2m and increase the loss by $0.2m.

(c) Foreign exchange

The parent entity has a current inter company account receivable with the US business part of which is considered an investment in the US legal entity and part of which is considered a receivable that can be collected upon. Any exchange gain or loss resulting from the translation into Australian Dollars of the investment component of the inter company account is taken to an equity reserve. Any exchange gain or loss resulting from the translation of the component of the inter company receivable that is considered recoverable is taken to the income statement. Therefore a 1 cent rise or fall in the USD/AUD exchange rate on this component of the year end balance at 30 June 2007 would have a profit after tax impact of $0.1m in the year ended 30 June 2007.

The parent entity likewise carries part of its inter company account with DWL as an investment and part as a receivable . The foreign exchange impact is negilible on this account.

(d) Inventory

At any given point the Group has an obligation to carry its inventory at the lower of cost and net realizable value. In determining the Group's compliance with this requirement the Group reviews its slow moving inventory at December 31 and June 30 each year. As a consequence of this review the financial provision for slow moving inventory is adjusted with a resulting income statement impact.

In determining the appropriateness of the slow moving inventory provision the Group makes estimates about its future use of certain product lines and also the ultimate recoverability and usefulness of the inventory on hand.

Given the leading edge technology nature of the Group this may mean that inventory that was previously considered usable and therefore of value may quickly become redundant, obsolete or simply no longer usable.

(e) Trade Receivables and others

Similarly for trade receivables the Group must make an estimate at any given point in time as to the recoverability of the receivables it has on its ledger and a provision for doubtful debt is created based on this estimate.

The estimate is based on many factors including:

- The Group's knowledge of its customers and the likelihood of there being any issue with payment.
- The Group's prior good history in relation to collecting receivables; and
- The territory where the receivable is owed from.

Using this information the Group makes an assessment of the recoverability of its receivables.

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NOTE 2. SEGMENT INFORMATION

(a) Description of segments

Business segments

The consolidated entity is organised on a global basis into the following divisions by product and service type:
Sleep – Development, Manufacture and sale of sleep diagnostic equipment.
Brain Research – Development, Manufacture and sale of Brain Research equipment.
Neuroscience – Development, Manufacture and sale of Clinical EEG and Transcranial Doppler equipment.
Neuro Medical Supplies – Manufacture, sale and resale of electrodes, sensors and other support items.

Geographical segments

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

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

(b) Primary reporting format – Business Segments

2007	Sleep	Brain Research	Neuroscience	Neuro Medical Supplies	Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'000
Sales to external customers	15,317	8,528	8,614	4,191	–	36,650
Intersegment sales	–	–	–	–	–	–
Total sales revenue	15,317	8,528	8,614	4,191	–	36,650
Other income/revenue	65	36	36	–	–	137
Total segment revenue/income	15,382	8,564	8,650	4,191	–	36,787
SEGMENT RESULT	344	188	(628)	816	–	720
Unallocated income/(expense)						(597)
Tax expense						–
Net profit after interest and tax						123
Segment assets	7,206	3,664	3,994	2,590	–	17,454
Unallocated assets						1,797
Tax assets						–
Total assets						19,251
Segment liabilities	2,946	1,640	1,656	806	–	7,048
Unallocated liabilities						5,289
Tax liabilities						–
Total liabilities						12,337
Net assets						6,914
Acquisition of PPE	–	–	–	–	202	202
Depreciation and amortisation	–	–	–	–	(455)	(455)

NOTE 2. SEGMENT INFORMATION (CONTINUED)

2006

	Sleep	Brain Research	Neuroscience	Neuro Medical Supplies	Unallocated	Consolidated
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Sales to external customers	14,823	9,700	8,706	4,355	–	37,584
Intersegment sales	–	–	–	–	–	–
Total sales revenue	14,823	9,700	8,706	4,355	–	37,584
Other income/revenue	1,117	56	–	–	–	1,173
Total segment revenue/income	15,940	9,756	8,706	4,355	–	38,757
SEGMENT RESULT	1,050	(601)	(1,884)	945	(581)	(1,071)
Unallocated income/(expense)						(524)
Tax expense						–
Net profit after interest and tax						(1,595)
Segment assets	6,860	3,987	4,165	2,348	–	17,360
Unallocated assets						4,815
Tax assets						–
Total assets						22,175
Segment liabilities	2,819	1,844	1,637	828	–	7,128
Unallocated liabilities						8,330
Tax liabilities						–
Total liabilities						15,458
Net assets						6,717
Acquisition of PPE	–	–	–	–	121	121
Depreciation and amortisation	–	–	–	–	(945)	(945)

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NOTE 2. SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting format – Geographical segments

2007

	USA	Asia/Pac	Europe	Elimination	Group
	$'000	$'000	$'000	$'000	$'000
Sales to external customers	15,197	10,678	10,775	–	36,650
Intersegment sales	1,182	2,125	811	(4,118)	–
Total sales revenue	16,379	12,803	11,586	(4,118)	36,650
Other income/revenue	1	78	58	–	137
Total segment revenue/income	16,380	12,881	11,644	(4,118)	36,787
Segment Assets	5,081	19,624	3,925	(9,379)	19,251
Tax assets					–
Total assets					19,251
Acquisitions of property, plant and equipment	–	202	–	–	202
Acquisitions of intangibles and other non current segments assests.	–	–	–	–	–

2006

	USA	Asia/Pac	Europe	Elimination	Group
	$'000	$'000	$'000	$'000	$'000
Sales to external customers	14,058	13,035	10,491		37,584
Intersegment sales	1,536	2,460	481	(4,477)	–
Total sales revenue	15,594	15,495	10,972	(4,477)	37,584
Other income/revenue	56	114	1,003	–	1,173
Total segment revenue/income	15,650	15,609	11,975	(4,477)	38,757
Segment Assets	6,364	20,282	4,631	(9,102)	22,175
Tax assets					–
Total assets					22,175
Acquisitions of property, plant and equipment	–	121	–	–	121
Acquisitions of intangibles and other non current segments assets	–	–	–	–	–

Segments revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

(d) Notes to and forming part of the segment information

(i) Inter–segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms–length" basis and are eliminated on consolidation.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
NOTE 3. REVENUE				
FROM CONTINUING OPERATIONS				
Sales revenue				
Sale of goods	35,201	35,913	17,128	20,044
Services	1,449	1,671	654	884
Other revenue				
Interest	84	119	84	119
TOTAL REVENUES FROM CONTINUING OPERATIONS	**36,734**	**37,703**	**17,866**	**21,047**

NOTE 4. OTHER INCOME

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Other income	137	94	77	–
Legal settlement proceeds (note (a))	–	1,079	–	1,079
TOTAL OTHER INCOME	**137**	**1,173**	**77**	**1,079**

(a) Legal settlement

In February 2006 the Company settled a legal dispute with its former sleep diagnostic product distributor for Europe. As a consequence the Company booked proceeds net of legal expenses of $1.08m at this time.

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	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
NOTE 5. EXPENSES				
Profit before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	356	470	206	301
Plant and equipment under finance leases	99	223	99	223
Total depreciation	455	693	305	524
Amortisation				
Intellectual property	–	252	–	–
Total amortisation	–	252	–	–
Finance costs				
Interest and finance charges paid/payable	871	643	729	611
Total finance costs	871	643	729	611
Rental expense relating to operating leases				
Minimum lease payments	1,131	1,065	562	476
Total rental expense relating to operating lease	1,131	1,065	562	476
Foreign exchange gains and losses				
Net foreign exchange losses / (income)	1,043	(277)	1,025	(483)
Net foreign exchange losses / (income) recognised in profit before income tax for the year	1,043	(277)	1,025	(483)
Employee benefits				
Payroll expense including leave payments	12,035	10,546	6,182	4,775
Superannuation entitlements	808	767	495	405
Total employee Benefits	12,843	11,313	6,677	5,180
Non–current receivables – impairment provision	–	–	1,585	3,667
Non–current assets– impairment provision for investments in controlled entities	–	–	435	107

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

NOTE 6. INCOME TAX EXPENSE

(a) Income tax expense

Current tax	–	–	–	–
Deferred tax	–	–	–	–
Aggregate income tax expense	–	–	–	–
Deferred income tax (revenue) expense included in income tax comprises:				
(decrease) increase in deferred tax liabilities	73	–	73	–

(b) Numerical Reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	123	(1,595)	(709)	(2,529)
Tax at the Australian tax rate of 30% (2006 – 30%)	37	(479)	(292)	(759)
Tax effect of amounts which are not deductible (taxable) in calculating income:				
Impairement of intercompany receivables and investments	–	–	607	1,100
Entertainment	3	8	3	8
Research and development	(451)	(360)	(451)	(360)
Losses not brought to account	411	831	133	11
Income tax expense	**–**	**–**	**–**	**–**

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited (credited) directly to equity (note 21)	73	–	73	–

(d) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	6,513	4,195	6,513	3,583
Potential tax benefit @ 30%	1,954	1,259	1,954	1,075

(a) The benefit of tax losses will of be obtained if:

(i) the Group derived future assessable income of a nature and an amount sufficient to enable the benefit form the deductions for the loss to be realised.

(ii) the Group continued to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no change in tax legislation adversely affected the Group in realising the benefit from the deductions for the loss

(b) Compumedics Limited and its wholly owned Australian controlled entities have elected not to implement the tax consolidation legislation.

(e) Provision for income tax

Balance at 1 July	72	72	–	–
Provision no longer required	(72)	–	–	–
Balance at 30 June	**–**	**72**	**–**	**–**

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	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(f) Deferred tax				
Deferred tax liabilites				
Intangible assets (note 13)	246	–	246	–
Value of conversion rights of RCNs (note 21)	73	–	73	–
Total deferred tax liability recognised	**319**	**–**	**319**	**–**
Set–off of deferred tax assets (in relation inventory provisions) pursuant to set–off provisions	(246)	–	(246)	–
Net deferred tax liability	**73**	**–**	**73**	–

NOTE 7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash at bank and in hand	364	3,319	77	2,845
(a) Reconciliation to cash at the end of the year				
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:				
Balances as above	364	3,319	77	2,845
Bank Overdraft (Note 15)	(917)	(965)	–	–
Balances per statement of cash flows	(555)	2,354	77	2,845

(b) Cash at bank and on hand
Refer note 10 for interest risk rate

NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Trade receivables (note (b))	12,145	12,969	6,146	6,159
Provision for impairment of receivables (note (a))	(502)	(436)	(414)	(204)
	11,643	12,533	5,732	5,955
Loans to key management personnel*	56	167	56	167
Other receivables/prepayments	164	208	164	208
Sales tax receivable	601	204	–	–
TOTAL	821	579	220	375
TOTAL TRADE AND OTHER RECEIVABLES	12,464	13,112	5,952	6,330

* Further information relating to key management personnel is set out in Note 23.

(a) Bad and doubtful trade receivables
The Group has recognised a loss of $435,389 (2006: $3,042) in respect of bad and doubtful trade receivables during the year ended 30 June 2007. The loss has been included in the income statement.

(b) Effective interest rates and credit risk
Information concerning the effective interest rate and credit risk of both current and non–current receivables is set out in the non–current receivables note (Note 10).

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
NOTE 9. CURRENT ASSETS – INVENTORIES				
Raw materials and stores–at cost	3,885	3,070	3,026	2,977
Work in progress–at cost	1,158	1,168	463	256
Finished goods–at cost	4,277	4,008	2,230	1,631
Provision for obsolescence	(4,329)	(3,420)	(2,755)	(2,195)
TOTAL	4,991	4,826	2,964	2,669

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2007 amounted to $15,384,000 (2006: $18,024,000).

Write–downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2007 amounted to $81,663 (2006: $967,867). The expense has been included in the income statement.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
NOTE 10. NON CURRENT ASSETS – RECEIVABLES				
Loans to controlled entities	–	–	8,985	8,912
Provision for impairment of non–current receivables	–	–	(5,252)	(3,667)
TOTAL	–	–	3,733	5,245

Further information relating to key management personnel and loans to related parties is set out in notes 23 and 28 respectively.

(a) Fair values

The fair values and carrying values of non–current receivables of the Group are as follows:

	2007		2006	
	Carrying amount $,000	Fair value $,000	Carrying amount $,000	Fair value $,000
Loans to controlled entities	3,733	3,733	5,245	5,245

The Group has yet to formally define the terms and conditions for the inter–company loans. The fair value of the non interest bearing receivable is based on the present value of estimated future cash flows.

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NOTE 10. NON CURRENT ASSETS – RECEIVABLES (CONTINUED)

(b) Interest rate risk

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

	Floating interest rate	Fixed interest maturing in: 1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	More than 5 years	Non–interest bearing	Total
2007	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL ASSETS									
Cash and deposits receivables	364	–	–	–	–	–	–	–	364
Receivables	–	–	–	–	–	–	–	12,464	12,464
Total	**364**	**–**	**–**	**–**	**–**	**–**	**–**	**12,464**	**12,828**
Weighted average interest rate	6.07%								

	Floating interest rate	Fixed interest maturing in: 1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	More than 5 years	Non–interest bearing	Total
2006	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL ASSETS									
Cash and deposits	1,319	2,000	–	–	–	–	–	–	3,319
Receivables	–	–	–	–	–	–	–	13,112	13,112
Total	**1,319**	**2,000**	**–**	**–**	**–**	**–**	**–**	**13,112**	**16,431**
Weighted average interest rate	5.48%	5.57%							

(c) Credit risk

The Group at 30 June 2007 has approximately 20 customers which owe the Group more than $5.3m. These customers are spread across the world and have been trading with the Group for various periods of time. The Group does not consider this concentration of accounts to materially increase the credit risk with respect to current and non–current receivables. All other receivables are dispersed over a large number of international customers.

NOTE 11. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Investments in controlled entities	–	–	7,625	7,625
Provision for diminution	–	–	(7,625)	(7,190)
TOTAL	–	–	–	435

These financial assets are carried at their net recoverable amount.

NOTE 12. NON–CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant and Equipment At Cost $'000	Plant and Equipment Leased $'000	Motor Vehicle $'000	Office Equipment At Cost $'000	Office Equipment Leased $'000	Leasehold Improvements $'000	Total $'000
At 1 July 2005							
Cost or fair value	574	430	157	2,242	557	473	4,433
Accumulated depreciation	(473)	(240)	(89)	(1,404)	(414)	(292)	(2,912)
Net book amount	101	190	68	838	143	181	1,521
Year ended 30 June 2006							
Opening net book amount	101	190	68	838	143	181	1,521
Additions	22	–	–	99	–	–	121
Disposals	–	–	–	(4)	–	–	(4)
Exchange differences	2	–	2	(31)	–	–	(27)
Depreciation charge	(31)	(108)	(25)	(361)	(115)	(53)	(693)
Closing net book amount	94	82	45	541	28	128	918
At 30 June 2006							
Cost or fair value	596	430	157	2,337	557	473	4,550
Accumulated depreciation	(502)	(348)	(112)	(1,796)	(529)	(345)	(3,632)
Net book amount	94	82	45	541	28	128	918
Year ended 30 June 2007							
Opening net book amount	94	82	45	541	28	128	918
Additions	3	–	–	80	14	105	202
Disposals							
Exchange differences	(7)	–	(7)	(38)	–	–	(52)
Depreciation charge	(41)	(67)	(30)	(242)	(32)	(43)	(455)
Closing net book amount	49	15	8	341	10	190	613
At 30 June 2007							
Cost or fair value	599	430	157	2,417	571	578	4,752
Accumulated depreciation	(550)	(415)	(149)	(2,076)	(561)	(388)	(4,139)
Net book amount	49	15	8	341	10	190	613

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NOTE 12. NON–CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

Parent	Plant and Equipment At Cost $'000	Plant and Equipment Leased $'000	Motor Vehicle $'000	Office Equipment At Cost $'000	Office Equipment Leased $'000	Leasehold Improvements $'000	Total $'000
At 1 July 2005							
Cost or fair value	470	430	19	1,482	557	473	3,431
Accumulated depreciation	(411)	(240)	(19)	(1,044)	(414)	(292)	(2,420)
Net book amount	59	190	–	438	143	181	1,011
Year ended 30 June 2006							
Opening net book amount	59	190	–	438	143	181	1,011
Additions	–	–	–	56	–	–	56
Disposals	–	–	–	(3)	–	–	(3)
Depreciation charge	(21)	(108)	–	(227)	(115)	(53)	(524)
Closing net book amount	38	82	–	264	28	128	540
At 30 June 2006							
Cost or fair value	470	430	19	1,535	557	473	3,484
Accumulated depreciation	(432)	(348)	(19)	(1,271)	(529)	(345)	(2,944)
Net book amount	38	82	–	264	28	128	540
Year ended 30 June 2007							
Opening net book amount	38	82	–	264	28	128	540
Additions	–	–	–	16	14	105	135
Disposals	–	–	–	–	–	–	–
Depreciation charge	(17)	(67)	–	(146)	(32)	(43)	(305)
Closing net book amount	21	15	–	134	10	190	370
At 30 June 2007							
Cost or fair value	470	430	19	1,551	571	578	3,619
Accumulated depreciation	(449)	(415)	(19)	(1,417)	(561)	(388)	(3,249)
Net book amount	21	15	–	134	10	190	370

(a) Non–current assets pledged as security

Refer to Note 19 for information on non–current assets pledged as security by the parent entity and its controlled entities.

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NOTE 12. NON–CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

b) Leased assets

Furniture, fittings and equipment includes the following amounts where the Group is lessee under a lease:

	Consolidated		Parent	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Leased Equipment – under finance lease				
Cost	1,001	987	1,001	987
Accumulated depreciation	(976)	(877)	(976)	(877)
Net book amount	25	110	25	110
Leasehold Improvements				
Cost	578	473	578	473
Accumulated depreciation	(388)	(345)	(388)	(345)
Net book amount	190	128	190	128

NOTE 13. NON–CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated		Parent	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Cost*	1,072	252	820	–
Accumulated amortisation charge** and impairment	(252)	(252)	–	–
Net book amount	820	–	820	–

* Includes capitalised development cost being an internally generated intangible asset for $820,000.

** Amortisation of $Nil (2006: $252,000) is included in the income statement.

NOTE 14. CURRENT LIABILITIES – Trade and other payables

	Consolidated		Parent	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Trade payables	4,892	5,225	2,481	3,090
Other payables	1,404	1,250	646	538
Employee benefits – Annual leave	795	653	534	525
TOTAL	**7,091**	**7,128**	**3,661**	**4,153**

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	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
NOTE 15. CURRENT LIABILITIES – Borrowings				
SECURED				
Bank loans	1,587	1,000	1,587	1,000
Bank overdraft	918	965	–	–
Lease liability (note 26)	45	101	45	101
	2,550	2,066	1,632	1,101
UNSECURED				
Concessional loan (note (a))	–	106	–	106
Redeemable Convertible Notes (note (b))	846	1,024	846	1,024
Payable to controlled entities	–	–	–	49
TOTAL	**3,396**	**3,196**	**2,478**	**2,280**

(a) Concessional loan

The concessional loan was provided to the Company via an initiative from AusIndustry. The loan was drawn down in 1999 and has been fully repaid at 30 June 2007.

(b) Redeemable Convertible Notes (RCNs)

On 16 March 2006 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of $1 million. The RCNs are convertible, at the option of the holder, into ordinary issued equity of the Company on the 1st and 2nd anniversary of their issue and have a 2 year life. The holder did not elect to convert the RCNs at the 1st anniversary.

The RCNs carry a coupon rate of interest of 20% p.a.

Coupon interest on the RCNs can only be paid as equity. The first year interest was converted into equity during the year ended 30 June, 2007.

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 RCNs.The average share price calculated on this basis is 8.2 cents per share.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Face value of notes issued	1,000	1,000	1,000	1,000
Accumulated interest expense	24	24	24	24
Interest expense	167	–	167	–
Value of conversion rights taken to equity	(345)	–	(345)	–
Current liability	**846**	**1,024**	**846**	**1,024**

(i) Interest expense is calculated by applying the effective interest rate of 16.6% p.a. (2006: 14.5%) to the liability component.

The 16.6% interest expense in the current year differs from the prima facie rate of 20% as approval was gained part way through the year. Hence the 16.6% is the weighted average interest rate for the year.

NOTE 15. CURRENT LIABILITIES – Borrowings (Continued)

(c) Payable to controlled entities

The payable to controlled entities relates to an historical loan with Compumedics Telemed Pty Ltd a 100% owned subsidiary of Compumedics Limited.

(d) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 19.

(e) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 19.

(f) Security

Details of the security relating to each of the secured liabilities and further information on the bank overdraft and bank loans are set out in note 19.

(g) Financial guarantees

The parent entity has given an unsecured guarantee in respect of a loan to a subsidiary amounting to $2,221,135 (2006: $2,700,212).

A liability has not been recognized by the parent entity in relation to these financial guarantees.

NOTE 16. CURRENT LIABILITIES – Current tax liabilities

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Provision for income tax	–	72	–	–

NOTE 17. CURRENT LIABILITIES – Provisions

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Employee benefits–long service leave	401	328	401	328
Service warranties	296	312	158	181
TOTAL	**697**	**640**	**559**	**509**

SERVICE WARRANTIES

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

Management estimates provision based historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

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MOVEMENT IN PROVISIONS

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

	Service Warranties Consolidated $'000	Service Warranties Parent $'000
Balance at 1 July 2006	312	181
Additional provisions recognised	–	–
Unused amounts reversed	(16)	(23)
Balance at 30 June 2007	296	158

NOTE 18. CURRENT LIABILITIES – Deferred revenue

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Deferred revenue	1,059	1,115	226	214
TOTAL	**1,059**	**1,115**	**226**	**214**

Deferred revenue relates to service contracts yet to be performed and post sale installation and training obligations yet to be completed pursuant to the Company's accounting policies as detailed in Note 1A. Summary of significant accounting policies, (e) Revenue recognition on page 59.

NOTE 19. NON CURRENT LIABILITIES – Borrowings

SECURED	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Bank Loans	–	3,215	–	3,215
Lease liability (note 26)	7	32	7	32
TOTAL	**7**	**3,247**	**7**	**3,247**

NOTE 19. NON CURRENT – Borrowings (continued)

(a) Assets pledged as security

The bank loans and overdraft are secured by a Corporate Guarantee and Indemnity unlimited as to amount and a Mortgage Debenture over all the assets and undertaking of the Company and subsidiaries Compumedics Telemed Pty Ltd, Compumedics Cardiology Pty Ltd, Compumedics Medical Innovation Pty Ltd, Compumedics USA Inc, Compumedics Germany GmbH and Compumedics Singapore Pte Ltd.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non–current borrowings are:

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current					
Floating charge					
Cash and cash equivalents	7	363	3,319	77	2,845
Inventories	9	4,991	4,826	2,964	2,669
Receivables	8	12,464	13,112	5,952	6,330
Total current assets pledged as security		17,818	21,257	8,993	11,844
Non–current					
Floating charge					
Receivables	10	–	–	3,733	5,245
Other Financial asset	11	–	–	–	435
Plant and equipment	12	613	918	371	540
Total non–current assets pledged as security		613	918	4,104	6,220
Total assets pledged as security		18,431	22,175	13,097	18,064

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NOTE 19. NON CURRENT – Borrowings (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Credit standby arrangements					
Bank Overdraft					
Total facility (EUR 600,000)		960	1,033	–	–
Used at balance date	15	918	965	–	–
Unused at balance date		42	68	–	–
Bank loan facilities					
Total facilities		1,678	4,216	1,678	4,216
Used at balance date	15	1,587	4,215	1,587	4,215
Unused at balance date		91	1	91	1

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

(c) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Group tends to hold fixed rate liabilities to maturity.

			Fixed interest maturing in:							
	Notes	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	More than 5 years	Non–interest bearing	Total
2007		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL LIABILITIES										
Bank loans and facilities	15	2,550	–	–	–	–	–	–	–	2,550
Trade and other creditors	14	–	–	–	–	–	–	–	7,091	7,091
Other loans	15	–	846	–	–	–	–	–	–	846
Deferred revenue	18	–	–	–	–	–	–	–	1,059	1,059
Total		**2,550**	**846**	**–**	**–**	**–**	**–**	**–**	**8,150**	**11,546**
Weighted average interest rate:		10.5%	16.6%							

			Fixed interest maturing in:							
	Notes	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	More than 5 years	Non–interest bearing	Total
2006		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL LIABILITIES										
Bank loans and facilities	15,19	5,313	106	–	–	–	–	–	–	5,419
Trade and other creditors	14	–	–	–	–	–	–	–	7,128	7,128
Other loans	15	–	1,024	–	–	–	–	–	–	1,024
Deferred revenue	18	–	–	–	–	–	–	–	1,115	1,115
Total		**5,313**	**1,130**	**–**	**–**	**–**	**–**	**–**	**8,243**	**14,686**
Weighted average interest rate:		8.65%	13.4%							

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(d) Fair value

No borrowings are readily traded on organised markets.

The carrying amounts of all borrowings are not materially different to their fair values at balance date.

The fair values of borrowings is based upon discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

Fair value does not include any transaction costs.

(e) Off balance sheet derivative instruments

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

(f) Forward exchange contracts

At 30 June 2007 and 30 June 2006 there were no outstanding forward exchange contracts.

NOTE 20. NON CURRENT LIABILITIES–PROVISIONS

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Employee Benefits – Long service leave	12	60	12	60

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NOTE 21. CONTRIBUTED EQUITY

		Parent and Consolidated			
	Notes	**2007 Shares**	**2006 Shares**	**2007 $'000**	**2006 $'000**
(a) Share Capital					
Ordinary Shares	(c),(d)	140,070,423	140,000,000	29,020	29,020
Shares issued in lieu of interest payable on RCNs	(c)	2,439,024	–	200	–
		142,509,447	**140,000,000**	**29,220**	**29,020**
(b) Other equity securities					
Value of conversions rights RCNs	(e)			345	–
Deferred tax liability component				(73)	–
				272	**–**
Total contributed equity parent entity				**29,492**	**29,020**
Total consolidated contributed equity				**29,492**	**29,020**

(c) Movements in ordinary share capital

Date	Details	Notes	Number of Shares	Issue price	$'000
30–06–2004	Balance	(b)	140,000,000	–	29,020
Nil movement in year				–	
30–06–2005	Balance		140,000,000	–	29,020
Nil movement in year					–
30–06–2006	Balance		140,000,000	–	29,020
Shares issued on conversion of options in lieu of bonus			70,423	0.01	–
Shares issued in lieu of interest payable on RCNs			2,439,024	0.082	200
30–06–2007	Balance		142,509,447	0.2	29,220

(d) Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the company in proportion to the number of and amounts paid on shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote. The ordinary shares have no par value.

(e) Other equity securities
The amount shown for the other equity securities is the value of the conversion rights relating to the RCN, details of which is shown in note 15.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

NOTE 22. RESERVES AND RETAINED PROFITS

(a) Reserves

Shares issued in lieu of interest payable on RCNs	(200)	–	(200)	–
Foreign currency translation reserve	(583)	(385)	–	–
	(783)	**(385)**	(200)	–

Movements

Shares issued in lieu of interest payable on RCNs				
Balance 1 July	–	–	–	–
Shares issued	(200)	–	(200)	–
Balance 30 June	(200)	–	(200)	–
Foreign currency translation reserve				
Balance 1 July	(385)	(558)	–	–
Currency translation differences arising during the year	(198)	173	–	–
Balance 30 June	**(583)**	**(385)**	**–**	**–**

(b) Retained profits

Movements in retained losses were as follows:				
Balance 1 July	(21,918)	(20,323)	(21,419)	(18,890)
Net profit/(loss) for the year	123	(1,595)	(974)	(2,529)
Balance 30 June	**(21,795)**	**(21,918)**	**(22,393)**	**(21,419)**

(c) Nature and purposes of reserves

(i) Shares issued in lieu of interest payable on RCNs
Pursuant to the terms of the RCNs, 2,439,024 ordinary shares were issued to D & DJ Burton Holdings Pty Ltd. The number of shares issued was determined by dividing the interest due of $200,000 by the conversion price of 8.2 cents per share. The conversion price being the average share price for the 5 trading days immediately prior to issue of the RCNs.

Foreign currency translation reserve
(ii) Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

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NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) Chairman and Executive director
David Burton, Chief Executive Officer

(ii) Non–executive directors
Alan Anderson
Prof. Graham Mitchell
Bruce Rathie (retired December 2006)

Mr. Bruce Rathie was a Director from the beginning of the financial year through to his retirement in December 2006.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
David Lawson^	Chief Financial Officer and Company Secretary	Compumedics Limited
Warwick Freeman^	Chief Technology Officer	Compumedics Limited
Kerry Kubick	Legal Counsel & Patent Attorney	Compumedics Limited
Andrew Kegele	Business Director, Australia and New Zealand	Compumedics Limited
Anthony Curro^	Vice President, Sales, America	Compumedics USA Limited
Christoph Witte^	Managing Director, DWL	Compumedics Germany GmbH
Paul Spooner^	Business Director, Europe and Middle East	Compumedics Limited
Curtis Ponton^	Vice President, Chief Scientist Neuroscan	Compumedics USA Limited
Tom Lorick^	Vice President, Marketing America	Compumedics USA Limited

^The above persons were also key management persons during the year ended 30 June 2006.

(c) Key management personnel compensation

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Short–term employee benefits	2,540,887	2,317,855	1,486,085	1,282,375
Post–employment benefits	86,895	71,417	61,953	47,003
Long Term Benefits	9,260	18,393	9,260	18,393
Share–based payments	–	–	–	–
TOTAL	2,637,042	2,407,665	1,557,298	1,347,771

The company has taken advantage of the relief provided by Corporations Regulations 2M–6.04 and has transferred the detailed remuneration disclosures to the Directors' report.

The relevant information can be found on pages 33 to 42 of the Director's Report.

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NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Compumedics Ltd and other key management personnel of the Company, including their personally related parties, are set out below.

There were no options provided as remuneration during the current or prior year.

2007 Name	Balance at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at end of the year
Directors of Compumedics Limited						
David Burton	292,645	–	70,423	–	222,222	222,222
Prof Graham Mitchell	–	–	–	–	–	–
Bruce Rathie (retired Dec 2006)	–	–	–	–	–	–
Alan Anderson	20,000	–	–	(20,000)	–	–

No other key management personnel held options during the period 1 July 2006 to 30 June 2007 and at 30 June 2007.

2006 Name	Balance at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at end of the year
Directors of Compumedics Limited						
David Burton	292,645	–	–	–	292,645	292,645
Koichiro Koike (retired Sep 05)	660,000	–	–	(660,000)	–	–
Prof Graham Mitchell	66,000	–	–	(66,000)	–	–
Alan Anderson	86,000	–	–	(66,000)	20,000	20,000
Bruce Rathie	–	–	–	–	–	–
Other key management personnel of the Group						
David Lawson	660,000	–	–	(660,000)	–	–
Warwick Freeman	660,000	–	–	(660,000)	–	–
Tim Gresham	–	–	–	–	–	–
Paul Spooner	–	–	–	–	–	–
Christoph Witte	–	–	–	–	–	–
Anthony Curro	–	–	–	–	–	–
Curtis Ponton	–	–	–	–	–	–
Tom Lorick	–	–	–	–	–	–

No options are vested and unexercisable at the end of the year.

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Compumedics Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

There were no shares granted during the reporting period as compensation.

2007 Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year*	Balance at end of the year
Directors of Compumedics Limited				
Ordinary Shares				
David Burton	89,716,608	70,423	2,185,027	91,972,058
Prof Graham Mitchell	–	–	–	–
Bruce Rathie (retired Dec 2006)	79,165	–	(79,165)	–
Alan Anderson	25,000	–	(64,655)	89,655
Other key management personnel of the group				
Ordinary Shares				
David Lawson	700,812	–	424,559	1,125,371
Warwick Freeman	82,000	–	–	82,000
Kerry Hubick	507,374	–	537,575	1,044,949
Andrew Kegele	32,000	–	34,483	66,483
Anthony Curro	–	–	–	–
Christoph Witte	–	–	–	–
Paul Spooner	–	–	–	–
Curtis Ponton	–	–	–	–
Tom Lorick	–	–	–	–

*** The shares were purchased on market and off–market at market rates and do not form part of remuneration.**

2006 Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Compumedics Limited				
Ordinary Shares				
David Burton	89,761,608	–	41,500*	89,803,108
Prof Graham Mitchell	–	–	–	–
Alan Anderson	25,000	–	–	25,000
Bruce Rathie	10,000	–	69,165*	79,165
Other key management personnel of the group				
Ordinary Shares				
David Lawson	230,000	–	470,812*	700,812
Warwick Freeman	82,000	–	–	82,000
Tim Gresham	–	–	–	–
Paul Spooner	–	–	–	–
Christoph Witte	–	–	–	–
Anthony Curro	–	–	–	–
Curtis Ponton	–	–	–	–
Tom Lorick	–	–	–	–

*** The shares were purchased on market and do not form part of remuneration.**

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NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

e) Pre–paid bonuses to key management personnel

Details of pre–paid bonuses made to directors of Compumedics Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

(i) Aggregates for key management personnel

Group	Balance at start of the year	Additional payments made	Bonuses earned and discharged	Balance at end of the year	Number in group at end of the year
	$	$	$	$	
2007	167,000	–	111,333	55,667	1
2006	200,000	–	33,000	167,000	1

(ii) Individuals with pre–paid bonuses over $100,000 during the financial year

2007 Name	Balance at start of the year	Additional payments made	Bonuses earned and discharged	Balance at end of the year	Number in group at end of the year
	$	$	$	$	
David Burton	167,000	–	111,333	55,667	1

2006 Name	Balance at start of the year	Additional payments made	Bonuses earned and discharged	Balance at end of the year	Number in group at end of the year
	$	$	$	$	
David Burton	200,000	–	33,000	167,000	1

The prepaid bonus has been recouped via the achievement of specific goals related to projects undertaken in Medical Innovations.

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

(f) Other transactions with key management personnel

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

David Burton is a director of D & DJ Burton Holding Pty Ltd.

On 16 March 2006 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of $1 million. The RCNs are convertible, at the option of the holder, into ordinary issued equity of the Company on the 1st and 2nd anniversary of their issue and have a 2 year life. The holder did not elect to convert the RCNs at the 1st anniversary.

The RCNs carry a coupon rate of interest of 20% p.a.

Coupon interest on the RCNs can only be paid as equity. The first years interest was converted into equity during the year ended June 30, 2007.

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. The average share price calculated on this basis is 8.2 cents per share.

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

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NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:				
Amounts recognised as expense				
Legal fees	79,210	1,363,530	79,210	1,383,530
Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions:				
Current liabilities – Borrowings	846,480	1,024,167	846,480	1,024,167

NOTE 24. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non–related audit firms:

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
1. Audit services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work	160,000	222,079	140,904	222,079
Related practices of PricewaterhouseCoopers Australian firm	29,958	54,190	–	–
Total remuneration for audit services	**189,958**	**276,269**	**140,904**	**222,079**
2. Non–audit services				
Taxation services				
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services	12,486	14,037	–	–
Total remuneration for taxation services	**12,486**	**14,037**	**–**	**–**
Total remuneration for non–audit services	**12,486**	**14,037**	**–**	**–**

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

NOTE 25. CONTINGENCIES

Contingent liabilities

The parent entity and consolidated entity had no contingent liabilities at 30 June 2007.

Contingent assets

The parent entity and consolidated entity had no contingent assets at 30 June 2007.

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	Consolidated		Parent	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**

NOTE 26. COMMITMENTS

Operating leases

The Company leases its office facilities in Melbourne, Charlotte, Hamburg and Singen Germany. These leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Within one year	839	1,154	496	496
Later than one year but not later than 5 years	1,564	1,482	1,037	639
Commitments not recognised in the financial statements	2,403	2,636	1,533	1,135

Finance leases

Commitments for minimum lease payments are payable as follows:

		Consolidated		Parent	
	notes	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Within one year		–	101	–	101
Later than one year but not later than five years		–	32	–	32
Later than five years		–	–	–	–
Total		**–**	**133**	**–**	**133**
Weighted average interest rate		–	6.64%	–	6.64%

Other leases

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Future minimum lease payments expected to be received in relation to non–cancelable sub–leases of rental properties	536	–	536	–

NOTE 27. SHARE BASED PAYMENTS

(a) Employee Option Plan

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan.

Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests and is exercisable on the following basis:

(i) 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant

(ii) 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant

(iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date of the grant

When exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

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NOTE 27. SHARE BASED PAYMENTS (CONTINUED)

The Company did not have any share based payments in the full year ended 30 June 2007.

Set out below is a summary of existing options granted under the plan:

Compumedics Limited Employee Option Plan

Consolidated and Parent entity 2007

Grant date	Expiry date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Vested and Exercisable at end of the year
		$	Number	Number	Number	Number	Number
Consolidated and parent entity–2007							
1/Aug/01	1/Aug/06	0.60	10,000	–	–	(10,000)	–
31/Oct/01	31/Oct/06	0.01	70,423*	–	(70,423)	–	–
6/Mar/02	6/Mar/07	0.55	20,000	–	–	(20,000)	–
20/Dec/02	20/Dec/07	0.01	222,222*	–	–	–	222,222
11/Mar/04	11/Apr/09	0.31	50,000	–	–	–	50,000
Total			**372,645**	**–**	**(70,423)**	**(30,000)**	**272,222**
Weighted average exercise price (cents)			0.05		0.01	0.57	0.07

*** These options were issued in lieu of a cash bonus. As such the exercise price is 1 cent per share and the options vested in full on the grant date.**

Grant date	Expiry date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Vested and Exercisable at end of the year
Consolidated and parent entity–2006							
21/Dec/00	21/Dec/05	0.50	4,393,000	–	–	(4,393,000)	–
4/Jun/01	4/Jun/06	0.89	10,000	–	–	(10,000)	–
1/Aug/01	1/Aug/06	0.60	10,000	–	–	–	10,000
30/Sep/01	30/Sep/06	0.56	22,500	–	–	(22,500)	–
31/Oct/01	31/Oct/06	0.01	70,423*	–	–	–	70,423*
1/Dec/01	1/Dec/06	0.65	10,000	–	–	(10,000)	–
31/Dec/01	31/Dec/06	0.84	22,500	–	–	(22,500)	–
6/Mar/02	6/Mar/07	0.55	20,000	–	–	–	20,000
31/Mar/02	31/Mar/07	0.59	22,500	–	–	(22,500)	–
4/Jun/02	4/Jun/07	0.41	22,500	–	–	(22,500)	–
20/Dec/02	20/Dec/07	0.01	222,222*	–	–	–	222,222*
11/Mar/04	11/Apr/09	0.31	50,000	–	–	–	50,000
Total			**4,875,645**	**–**	**–**	**(4,503,000)**	**372,645**
Weighted average exercise price (cents)			0.24			0.25	0.05

*** These options were issued in lieu of a cash bonus. As such the exercise price is 1 cent per share and the options vested in full on the grant date.**

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2007 was 1 cent (2006 – not applicable).

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.5 months (2006 – 16.7 months).

NOTE 28. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity in the wholly–owned group is Compumedics Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 29.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 23.

(d) Transactions with related parties

Transactions between Compumedics Limited and other entities in the wholly owned group during and as at the years ended 30 June 2007 and 2006 consisted of:

	Consolidated		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Sales of goods and services				
Sales of electronic equipment to Compumedics USA Ltd from Compumedics Limited	–	–	2,139,615	2,345,254
Sales of electronic equipment to Compumedics Germany GmbH from Compumedics Limited	–	–	31,240	114,187
Purchase of goods				
Purchase of electronic equipment from Compumedics USA Ltd by Compumedics Limited	–	–	1,127,974	1,536,087
Purchase of electronic equipment from Compumedics Germany GmbH by Compumedics Limited	–	–	37,048	75,474
Cash transfers				
Cash transfers from Compumedics USA Ltd to Compumedics Limited	–	–	2,001,218	698,672
Cash transfers from Compumedics Limited to Compumedics USA Ltd	–	–	–	595,940
Cash transfers from Compumedics Limited to Compumedics Germany GmbH	–	–	666,057	1,150,418
Cash transfers from Compumedics Germany GmbH to Compumedics Limited	–	–	1,100,850	–
Other transactions				
Purchase of legal services from Fulbrights	79,210	1,382,530	79,210	1,382,530
Receipt of RCNs from D & DJ Burton Holdings Pty Ltd.	–	1,000,000	–	1,000,000
Interest on RCNs	166,476	24,000	166,476	24,000

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(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Current receivables (sales of goods and services)				
Subsidiaries	–	–	2,845,442	4,307,843

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(f) Loans to/from related parties

	Consolidated		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Loans to/from subsidiaries				
Beginning of the year	–	–	4,604,679	4,396,445
Loans advanced	–	–	2,322,647	–
Loan repayments received	–	–	–	–
Foreign exchange movement taken to income statement	–	–	(787,900)	208,234
End of year	–	–	6,139,426	4,604,679
Trading accounts to/from subsidiaries				
Beginning of the year	–	–	1,607,631	1,176,210
Net movement in trading activities	–	–	613,504	431,421
End of year	–	–	2,221,135	1,607,631
Beginning of the year	–	–	2,700,212	1,918,744
Net movement in trading activities	–	–	(2,075,905)	781,468
End of year	–	–	624,307	2,700,212
Loans to/from director				
Beginning of the year	1,024,000	–	1,024,000	–
Loans advanced	–	1,000,000	–	1,000,000
Interest charged	166,476	24,000	166,476	24,000
Amounts taken to equity	(343,996)	–	(343,996)	–
End of year	846,480	1,024,000	846,480	1,024,000

(g) Guarantees

No guarantees have been given from related parties.

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NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

(h) Terms and conditions

Sales between Compumedics Limited and Compumedics USA Ltd are at a cost plus a 5% mark up.

Compumedics Singapore Pte Ltd and Compumedics Germany GmbH are charged commissions, at a mark up of 5% of running costs of those entities. Compumedics Singapore no longer trades.

All other transactions were made on normal commercial terms and conditions and at market rates. The Company has agreed extended credit terms on this outstanding balance.

NOTE 29. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding		Parent Entity	
			2007 %	2006 %	2007 $'000	2006 $'000
Compumedics Telemed Pty Ltd.	Australia	Ordinary	100	100	7,083	7,083
Compumedics Medical Innovations Pty Ltd.	Australia	Ordinary	100	100	–	–
Compumedics Cardiology Pty Ltd.	Australia	Ordinary	100	100	–	–
Compumedics USA Inc.	USA	Ordinary	100	100	–	–
Compumedics Singapore Pte Ltd.	Singapore	Ordinary	100	100	107	107
Compumedics USA Ltd. (formerly Neuroscan Ltd.)	USA	Ordinary	100	100	–	–
Compumedics Germany GmbH.	Germany	Ordinary	100	100	435	435
					7,625	7,625
Less provision for diminution					(7,625)	(7,190)
TOTAL					**–**	**435**

NOTE 30. EVENTS OCCURRING AFTER BALANCE SHEET DATE

The Directors note that subsequent to the balance sheet date the Group has been offered and has accepted new banking facilities. The Group expects to settle with its new bankers during October 2007. Apart from the above at the date of this report the Directors are not aware of any other events occurring after the balance sheet date that would materially alter this report.

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NOTE 31. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit/(Loss) for the year	123	(1,595)	(974)	(2,529)
Depreciation and Amortisation	455	945	305	524
Net exchange differences	11	(151)	–	(4)
Property lease benefit amortisation	(91)	(34)	–	–
Impairment of investment subsidiaries	–	–	435	107
Impairment of loans in subsidiaries	–	–	1,585	3,667
CHANGE IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY				
Decrease (Increase) in receivables	648	(1,328)	(2,098)	(2,478)
Decrease (Increase) in inventories	(164)	1,136	(295)	887
(Decrease) Increase in payables	(146)	(328)	(497)	213
(Decrease) Increase in deferred revenues	(40)	(73)	12	(38)
(Decrease) Increase in provisions	51	50	2	85
Net Cash Inflow / (Outflow) from Operating Activities	**847**	**(1,377)**	**(1,525)**	**433**

NOTE 32. EARNINGS PER SHARE

	Consolidated	
	2007 Cents	2006 Cents
Basic earnings per share	0.1	(1.1)
Diluted earnings per share	0.1	(1.0)

RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

	Consolidated	
	2007 $'000	2006 $'000
Basic earnings per share		
Profit from continuing operations	123	(1,595)
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	123	(1,595)
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	123	(1,595)
Interest savings on Redeemable Convertible Notes (RCNs)	166	24
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	289	(1,571)

WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	Consolidated 2007	2006
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	140,206,256	140,000,000
Adjustments for calculation of diluted earnings per share:		
Options	270,073	372,645
Redeemable Convertible Note	14,634,146	17,073,170
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	155,110,475	157,445,815

(e) Information concerning the classification of securities

(i) Options

Options that have been granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27. The options granted

(iii) Redeemable Convertible notes

Redeemable Convertible notes issued during the year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in note 28.

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Director's Declaration

FOR THE YEAR ENDED 30 JUNE 2007

In the director's opinion:

a) the financial statements and notes set out on pages 51 to 99 are in accordance with *the Corporations Act 2001*, including:

   i. complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

c) the audited remuneration disclosures set out on pages 33 to 42 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and

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

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

D Burton
Director

Melbourne
30 September 2007

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Independent auditor's report to the members of Compumedics Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Compumedics Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Compumedics Limited and the Compumedics Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report contains information also, for which an auditors' opinion is not required and has not been formed. These disclosures have been identified as such.

Directors' responsibility for the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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

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disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of *the Corporations Act 2001.*

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Compumedics Limited is in accordance with *the Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

A Linschoten

Anton Linschoten
Partner

Melbourne
30 September 2007

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Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 11 September, 2007.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security					
	Shares	Ordinary Shares Number held	Options	Number held	Redeemable Convertible notes	Number held
1 – 1,000	95	76,699	–	–	–	–
1,001 – 5,000	436	1,480,111	–	–	1	1,000
5,001 – 10,000	273	2,357,318	–	–	–	–
10,000 – 100,000	414	13,195,267	1	50,000	–	–
100,001 and over	89	125,400,072	1	222,222	–	–
Total	**1,307**	**142,509,467**	**2**	**272,222**	**1**	**1,000**

There were 297 holders of less than a marketable parcel of ordinary shares and they hold 523,296 ordinary shares.

B. Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary Shares Number held	Percentage of issued shares
D & DJ Burton Holdings Pty Ltd	89,930,558	63.10
Teijin Pharma Liimited	8,293,698	5.82
Electro Molecular Pty Ltd	2,041,500	1.43
Armco Barriers Pty Ltd	1,400,000	0.98
Sally L Middleton S/F A/C	1,121,670	0.79
Dr Russell Hancock	1,000,000	0.70
Dr Kerry Hubick	906,598	0.64
Dental Healthcare Associates Pty Ltd	892,000	0.63
John Tilton Pty Ltd	849,409	0.60
Mr David Lawson	731,923	0.51
Mr Mladen Marusic	695,800	0.49
Mrs Joan Steel	630,000	0.44
Bond Street Custodians Limited	583,448	0.41
Southern Investments 2003 Pty Ltd	552,000	0.39
Mr Paul Hendry Golding	500,000	0.35
Mr Richard Kellor	500,000	0.35
Summit Twenty – Five Pty Ltd	500,000	0.35
Hawkins & Birthwright Limited	460,000	0.32
Mr Lance Thomas	419,801	0.29
Mr Ken Whilton	415,801	0.29
	112,424,206	78.89

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Unquoted equity securities

	Number on issue	Number of Holders
Convertible redeemable notes held by D & DJ Burton Holdings Pty Ltd	1,000	1

C. Substantial Holders

Substantial Holders in the company are set out below:

	Number Held	Percentage
Ordinary Shares		
D & DJ Burton Holdings Pty Ltd	89,930,558	63.10%
Teijin Pharma Limited	8,293,698	5.82%
Unquoted equity securities		
Convertible redeemable notes by D & DJ Burton Holdings Pty Ltd	1,000	100.00%

D. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

a) *Ordinary Shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

b) *Convertible redeemable notes*

No voting rights.

c) *Options*

No voting rights.

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Glossary

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

Glossary of Defined Terms

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

Glossary of Medical Terms

Anaesthesia	State of insensibility.
Apnoea	Cessation of breathing.
Cardiac	Heart stimulant or cordial.
CE	Conformite European.
CHF	Congestive Heart Failure (ineffective pumping of the heart leading to accumulation of fluid in the lungs).
CPAP	Continuous Positive Airway Pressure.
ECG	Electrocardiogram (recording of electrical activity of the heart).
EEG	Electroencephalogram (testing of electrical activity of the brain).
EMG	Electromyogram (measures muscle response to nerve stimulation).
EP	Evoked potentials (the electrical response of the central nervous system produced by an external stimulus).
FDA	Food & Drug Administration (USA).
Neurological	Investigation of pains in the nerves.
NIPPV	Non–Invasive Positive Pressure Ventilator.
NREM	Non–Rapid Eye Movement.
OSAS	Obstructive Sleep Apnoea Syndrome.
Polysomnography	Simultaneous and continuous monitoring of relevant normal and abnormal physiological activity during sleep.
PSG	Polysomnography (testing of behaviour disturbance during sleep).
REM	Rapid Eye Movement.
Respiratory	Process of breathing.
SaO_2	Blood Oxygen Saturation Level.
SHHS	Sleep Health Heart Study.
TCD	Transcranial Doppler
$TcCO_2$	Transcutaneous Carbon Dioxide Level.
Thoracic	Pertaining to or affecting the chest.
Toxaemia	Abnormal condition in pregnancy with hypertension and edema.

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Corporate Directory

BOARD OF DIRECTORS

Mr David Burton

Professor Graham Mitchell

Mr Alan Anderson

Company Secretary

Mr David Lawson

EXECUTIVE TEAM

Executive Chairman, CEO

Mr David Burton

Chief Financial Officer

Mr David Lawson

Chief Technology Officer

Mr Warwick Freeman

Legal Counsel & Patent Attorney

Kerry Hubrick

Business Director, Australia and New Zealand

Andrew Kegele

Vice President – Sales, Americas

Anthony Curro

General Managing Director DWL Compumedics Germany GmbH

Christoph Witte

Business Director EMEA

Paul Spooner

Vice President, Chief Scientist, Neuroscan

Curtis Ponton

Vice President, Marketing Americas

Tom Lorick

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

30–40 Flockhart Street
Abbotsford VIC 3067
Telephone: (03) 8420 7300

AUDITOR

PricewaterhouseCoopers
Chartered Accountants
Freshwater Place
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Southbank VIC 3006

SHARE REGISTERS

Link Market Services Limited
Level 4
333 Collins Street
Melbourne VIC 3000
Phone: 1300 554 474

SOLICITORS

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

STOCK EXCHANGE LISTINGS

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

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