COMPUMEDICS
LIMITED

ASX announcement

Accompaniment to Financial Results for year ending 30 June 2003.

Melbourne Australia, Tuesday 2nd September 2003; (ASX : CMP) today announced its results for the year ended 30 June 2003. This announcement provides further explanation of these results.

Research and development expenditure

Compumedics has been very successful generating growth in revenue over the last couple of years and the expansion of the company's product offering, however this has not translated to positive operating cash flows after R&D expenditure. The Directors of Compumedics have reassessed the carrying value of research and development (R&D) costs capitalised at balance date.

Previously the company has capitalised R&D costs when incurred and amortised those costs over the expected period of future earnings from the product that resulted from the R&D activity. These costs were capitalised after assessing future earning relating to this R&D. In assessing the future earnings, historically, the Directors have focused on gross margins expected from particular products over time.

In assessing the carrying value at 30 June 2003, the Directors have taken into account existing cashflow performance, uncertainty in timing of revenue and discounted net cash flows generated from overall operations after R&D expenditure, rather than gross margins. As a result the company has written off R&D costs previously capitalized. This has resulted in a pre tax charge to the statement of financial performance of $9.2m and after tax $7.5m.

Over the past year the business has evolved significantly from an essentially single focus sleep diagnostic business into a multi product business spanning sleep diagnostics, neurological diagnostics and brain research.

These factors coupled with the expansion of the sleep diagnostic business has resulted in ongoing R&D activities becoming a continuous part of the on-going activities of the company's operations. Many products exist, many R&D projects are being worked on, many of which relate as much to the business in the financial period at hand as they do to the future business of the company.

Going forward, R&D costs will be expensed as they are incurred unless they are recoverable beyond reasonable doubt based on discounted expected future cash flows. The Directors believe that due to the expansion and development of the business it may be difficult to separately identify cash inflows relating to separate R&D activities and it is likely R&D activities will be expensed, reflecting the reality of the business and its financial performance in any one reporting period.

Intellectual property acquired

Applying the same analysis as for R&D expenditure capitalised,, the reality remains that the business is not generating cash inflows from operations after R&D expenditure. The Directors therefore believe, in assessing carrying value at 30 June 2003, it to be prudent to write the values of these assets off in the current financial period.

As a result the pre-tax accounting charge in the current financial period is $8.7m and after tax $8.7m.

Notwithstanding the write offs described above, the Directors remain extremely confident about the prospects for Compumedics' products and development program and that the R&D and IP will continue to be utilised to develop the company.

Revenue recognition review

The business has evolved from generating the majority of its revenue via distributors to generating the majority of its revenue selling directly to end user customers. In light of this the Directors have reviewed the recognition of revenue and have adopted certain changes to better reflect the post sale training and installation obligations that exist with direct sales to end user customers.

In previous years, 100% of sales were taken up when orders were invoiced and dispatched from the company's premises as most sales were to distributors with no post sales obligations remaining with the company. The new policy defers 20% of revenue to end user customers until the post sale training and installation obligations have been completed. This revenue is then recognised at that time.

The impact of this change on the current year results was $0.9m reduction to revenue and $0.9m reduction to profit after tax. This revenue is not recognized until this task is complete. associated with manufacture of those products was still included.

Ends