Contents

2006 Financial Statements

Your Directors present their report on the consolidated entity (referred to here after as the Company) consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

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
- Bruce Rathie

Mr. Koichiro Koike was a Director from the beginning of the financial year through to his retirement on September 30, 2005.

PRINCIPAL ACTIVITIES

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

DIVIDENDS – COMPUMEDICS LIMITED

The Directors have not declared a dividend in the current financial year.

REVIEW OF OPERATIONS

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

	Sales Revenues		Segment Result	
	2006 $'000s	**2005 $'000s**	**2006 $'000s**	**2005 $'000s**
Sleep	14,823	17,385	1,050	(141)
Neuroscan	9,700	9,448	(601)	(971)
Neuroscience	8,706	7,505	(1,884)	(3,409)
Neuro Medical Supplies	4,355	3,819	945	641
Less: Unallocated revenue less unallocated expenses			(581)	(461)
Total	**37,584**	**38,157**	**(1,071)**	**(4,341)**
Unallocated income/expense			(524)	(339)
Tax expense			–	(1)
Net (loss) after interest and tax			(1,595)	(4,681)

Sleep

Revenue in the sleep diagnostic business at $14.8m was lower than the previous corresponding period. This was primarily due to lower sales in the US market as the Company aggressively implemented changes to its sales and marketing teams. The segment result in the sleep business improved as a consequence of the expense reductions implemented, the settlement proceeds from the legal dispute with our former European distributor, and better pricing and discount management in the US.

Brain Research (Neuroscan)

Revenues and segment result in the Brain Research (Neuroscan) business improved during the year primarily as a consequence of better sales out of China and Europe. Revenues grew by 3% over the same time period last year to $9.7m. The US market remains difficult due to the funding issues for research in the market, however the expense initiatives instigated have improved the earnings capability of this business in this market. As a consequence segment losses were reduced from $0.9m to $0.6m in the current year.

Neuroscience

Revenues in the Neuroscience business improved as the Company continued to expand its presence in the clinical EEG markets around the world and the DWL business continues to grow its sales in Europe and Asia. Revenues grew 16% over the corresponding period to $8.7m as a consequence and, combined with reduced expenses, losses were reduced from $3.3m to $1.9m for the full year.

NeuroMedical Supplies

Revenue in the NeuroMedical supplies business grew by 14% to $4.4m over the previous corresponding period. The supplies business represented 12% of total revenues for the year ended 30 June 2006, an increase on the 10% of total revenues for the year ended 30 June 2005. As a consequence earnings grew by 47% over the corresponding period to $0.9m.

EARNINGS PER SHARE

	Notes	2006 Cents	2005 Cents
Basic earnings per share	35	(1.1)	(3.3)
Diluted earnings per share	35	(1.1)	(3.3)

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

INFORMATION ON DIRECTORS

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

Director	Experience	Special Responsibilities	Ordinary Shares	Options
David Burton	Executive Director for 19 years. Chairman for 19 years.	Member of Remuneration Committee	89,803,103	292,645
Bruce Rathie	Independent Non-executive Director for 1 year, 8 months.	Chairman of Audit Committee	79,165	–
Prof Graham Mitchell	Independent Non-executive Director for 5 years, 7 months.	Member of the Remuneration Committee	–	–
Alan Anderson	Non-executive Director for 5 years, 7 months. Attorney at Law based in the USA.	Chairman of the Remuneration Committee. Member of the Audit Committee	25,000	20,000

Share options that are vested and exercisable at 30 June 2006 are shown at Note 29.

Details regarding age and other directorships can be found on page 24 and 25. Mr Bruce Rathie has had a former directorship with an ASX listed company in the last 3 years. This was with Total Sport & Entertainment Group Limited from December 2000 to December 2002. Mr Bruce Rathie is currently a director and Chairman of BioLayer Corporation Limited. No other director has held any other directorships in the previous 3 years. Professor Mitchell is director at Antisense Therapeutics Ltd, AVSP Pty Ltd, and the Geoffrey Gardner Dairy Foundation.

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 2006, and the numbers of meetings attended by each Director were:

	Full meeting of Directors		Meeting of Committees Audit		Remuneration	
	A	B	A	B	A	B
David Burton	12	12	–	–	1	1
Koichiro Koike (retired Sep 05)	2	3	–	–	–	–
Prof Graham Mitchell	8	12	–	–	1	1
Alan Anderson	9	12	3	5	1	1
Bruce Rathie	12	12	5	5	–	–

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. Principals 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 data, the Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

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

Alignment to program participants' interests:
- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 July, 2005. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

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

Retirement allowances for directors

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

Executive pay

The executive pay and reward framework has four components:

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

The combination of these comprises the executive's total remuneration. The Company adopted a long-term equity linked incentives program specifically for the head of the Medical Innovation Division during the year ending 30 June 2006 following its approval at the Annual General Meeting.

Base pay

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

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

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

Benefits

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

Retirement benefits

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

Short-term incentives

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

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

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

For the year ended 30 June 2006, the KPIs linked to short term incentive plans were based on the Company, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the senior executive team.

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

The STI target annual payment is reviewed annually. As the Company did not achieve its profit goals in the current financial year, no senior executive has received any short-term incentives related to the Company's current financial year performance except for sales targets.

Long-term incentives

The Company has instigated one long-term incentive program in the current year. At 30 June 2006 no other long-term incentive plans were in place for any other Director or key management personnel.

Medical Innovation Long Term Performance Plan (MI-LTPP)

The Company 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 2006 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 2006.

Compumedics Employee Option Plan

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

B. Details of remuneration (audited)

Details of the nature and amount of each element of the remuneration of each director of Compumedics Limited and each of the other key management personnel of the Company and the consolidated entity, which are also the highest paid executives for the year ended 30 June 2006 are set out in the following tables.

Directors of Compumedics Limited

2006	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name and fees	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
David Burton	341,550	33,000	–	–	–	–	374,550
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
TOTALS	488,625	33,000	–	2,925	–	–	524,550

The key management personnel of Compumedics Limited includes the Directors as noted above and the following executives which are also the highest paid executives in of the entity.

2006	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name and fees	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Warwick Freeman	199,755	–	–	14,998	–	–	214,753
David Lawson	188,370	–	–	16,380	–	–	204,750
Paul Spooner	194,950	36,563	–	–	–	–	231,513
Tim Gresham	96,874	44,238	–	12,700	–	–	153,812
TOTALS	679,949	80,801	–	44,078	–	–	804,828

The Directors believe that the parent entity, Compumedics Limited, has only four executives in addition to David Burton.

The key management personnel of the consolidated entity includes the directors and the following executives which includes the 5 group executives who received the highest remuneration for the year ended 30 June 2006.

	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name and fees	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
David Burton	341,550	33,000	–	–	–	–	374,550
Warwick Freeman	199,755	–	–	14,998	–	–	214,753
David Lawson	188,370	–	–	16,380	–	–	204,750
Christoph Witte	137,474	–	–	24,414	–	–	161,888
Anthony 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
TOTALS	1,873,982	222,433	–	68,492	–	–	2,164,907

Cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term incentives above. All other elements of remuneration are not directly related to performance.

Directors of Compumedics Limited

2005	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
David Burton	341,550	–	–	–	–	–	341,550
Koichiro Koike	135,576	–	–	2,285	–	–	137,861
Alan Anderson	37,500	–	–	–	–	–	37,500
Prof. Graham Mitchell	29,575	–	–	2,925	–	–	32,500
Bruce Rathie (Oct 04-Jun 05)	21,357	–	–	–	–	–	21,357
John Dyson (July 04-Oct 04)	17,500	–	–	–	–	–	17,500
TOTALS	583,058	–	–	5,210	–	–	588,268

Other key management personnel of Compumedics Limited

	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Warwick Freeman	191,818	–	–	14,017	–	–	205,835
David Lawson	188,370	–	–	16,380	–	–	204,750
Andrew Smith	186,300	–	–	16,200	–	–	202,500
David Lolterton (July 04-Mar 05)	128,233	5,400	–	10,447	–	–	144,080
TOTALS	694,721	5,400	–	57,044	–	–	757,165

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

Other key management personnel of the consolidated entity

2005 (continued)	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
David Burton	341,550	–	–	–	–	–	341,550
Stephen Sands (July 04-May 05)	207,751	–	13,505	10,329	–	–	231,585
Warwick Freeman	191,818	–	–	14,017	–	–	205,835
David Lawson	188,370	–	–	16,380	–	–	204,750
Andrew Smith	186,300	–	–	16,200	–	–	202,500
Christoph Witte (Sep 04-Jun 05)	114,095	–	–	20,644	–	–	134,739
Anthony Curro (Jun 05)	28,887	–	–	–	–	–	28,887
Tom Lorick (May 05-Jun 05)	33,302	–	–	–	–	–	33,302
Paul Spooner (Apr 05-Jun 05)	28,879	–	–	–	–	–	28,879
Curtis Ponton	156,525	–	–	–	–	–	156,525
David Loiterton (July 04-Mar 05)	128,233	5,400	–	10,447	–	–	144,080
TOTALS	1,605,710	5,400	13,505	88,017	–	–	1,712,632

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

C. Service agreements (audited)

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

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2006 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.
- Review of last salary – 1 July 2006
- David Burton does not have a formal service agreement.

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2006 of AUD214,753, to be reviewed annually by the remuneration committee
- Car allowance of $33,112
- Review of last salary – 1 July 2005
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2006 of AUD204,750, to be reviewed annually by the remuneration committee
- Review of last salary – 1 July 2005
- 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 America*

- Base salary inclusive of US benefits for the year ended 30 June 2006 of USD279,372 to be reviewed annually by the CEO.
- Performance bonus – USD81,250 was paid as a guaranteed bonus in the current year based on joining Compumedics.

- Review of last salary – June 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.

Tim Gresham, *Business Director Asia (excluding Japan and South America)*

- Base salary inclusive of superannuation for the year ended 30 June 2006 of AUD153,812 to be reviewed annually by the CEO.
- Performance bonus – AUD44,238 was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 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.

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

- Base salary inclusive of US benefits for the year ended 30 June 2006 of AUD231,513 to be reviewed annually by the CEO.
- Performance bonus – AUD36,563 was paid as a performance bonus on achievement of specific sales goals during the financial year.
- Review of last salary – 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.

Christoph Witte, *Managing Director, DWL*

- Base salary inclusive of superannuation, for the year ended 30 June 2006 of EUR99,464, 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.

Curtis Ponton, *Vice President, Chief Scientist Neuroscan*

- Base salary inclusive of US benefits for the year ended 30 June 2006 of USD175,288 to be reviewed annually by the CEO.
- Review of last salary – June 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.

Tom Lorick, *Vice President, Marketing, Americas*

- Base salary inclusive of US benefits for the year ended 30 June 2006 of USD161,417 to be reviewed annually by the CEO.
- Review of last salary – June 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.

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 did not have any share based payments in the full year ended 30 June 2006.

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
31 Oct 2001	31 Oct 2006	$0.01	$0.01	At grant date
6 Mar 2002	6 Mar 2007	$0.55	$0.55	At grant date
20 Dec 2002	20 Dec 2002	$0.01	$0.01	At grant date

E. Additional information (unaudited)

For cash bonus included in the tables set out on pages 34 and 35 the percentage of the availbale 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%	–
Anthony Curro	100%	–
Tim Gresham	84%	16%
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 24 to the financial statements.

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED EXECUTIVES

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

Mr Bruce Rathie was offered 20,000 options on his appointment as a non-executive director of Compumedics Limited, for which approval will be sought at the annual general meeting on 9th November 2006.

SHARES UNDER OPTION

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

	Number	Exercise Price of Shares ($)	Expiry Date
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	–	–	–
Total	**372,645**		

There were no new options issued during the year. No options were exercised during the year.

INSURANCE OF OFFICERS

During the financial year, Compumedics Limited paid premiums of $63,168 to insure the Directors and Secretary of the Company and its Australian-based controlled entities, and the Executives and other senior managers of each of the divisions of the consolidated entity.

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

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:

- 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 Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

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	
	2006 $	2005 $
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the Corporations Act 2001	222,079	145,500
Related practices of PricewaterhouseCoopers Australian firm	54,190	38,000
Total remuneration for audit services	**276,269**	**183,500**
2. Taxation Services		
Tax compliance services, including review of company income tax returns	–	23,287
Related practices of PricewaterhouseCoopers Australian firm	–	14,499
Total	**–**	**37,786**

Compumedics Limited changed its taxation advisor during the financial year ended 30 June 2005.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 40

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.

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

D. Burton
Director

Melbourne
29 September 2006

Auditors' Independence Declaration

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

As lead auditor for the audit of Compumedics Limited for the year ended 30 June 2006, 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
29 September 2006

Compumedics Limited (Compumedics) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. An extensive review of the Company's corporate governance framework was completed in August and September 2003 in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003. The Company's framework was largely consistent with the recommendations and exceeded them in some areas. The Company and the Audit Committee are continuing to review the Corporate Governance arrangements of the Company and the on-going appropriateness of existing charters and any other charters that may be appropriate for the Company to adopt. This process was expected to be completed during the last financial year, however given the focus on the trading performance of the business over the last 12 months this process is now expected to be completed within the next 12 months. The Company and its controlled entities together are referred to as the Group in this statement.

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

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

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

THE BOARD OF DIRECTORS

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

Board composition

The charter states:

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

Responsibilities

The responsibilities of the Board include:

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

Board members

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

The Board seeks to ensure that:

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

Directors' independence

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

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

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

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

At the date of this report the following directors are considered independent according to the governance provisions laid down by the Australian Stock Exchange:
– Prof. Graham Mitchell
– Mr Bruce Rathie

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.

Commitment

The Board held eleven Board meetings.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2006, and the number of meetings attended by each director is disclosed in the Directors' Report.

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

Independent professional advice

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

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

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

REMUNERATION COMMITTEE

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

A Anderson (Chairman)

G Mitchell

and the following executive director:

D Burton.

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

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

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

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

Further information on directors' and executives' remuneration is set out in the Directors' report and note 24 to the financial statements.

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

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

AUDIT COMMITTEE

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

B Rathie (Chairman)

A Anderson.

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

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

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

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

In fulfilling its responsibilities, the audit committee:

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

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

EXTERNAL AUDITORS

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

A copy of the auditor's independence declaration is required under section 307C of the *Corporations Act 2001* is set out on page 40.

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

RISK ASSESSMENT AND MANAGEMENT

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

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

CODE OF CONDUCT

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

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

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

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

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

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

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

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

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

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

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.

The financial report was authorised for issue by the directors on 29 September 2006. 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

Income Statements

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from continuing activities	3	37,703	38,367	21,047	18,957
Other income	4	1,173	132	1,079	57
Cost of sales		(18,024)	(17,864)	(9,765)	(9,504)
Administration		(4,796)	(5,011)	(2,733)	(2,789)
Sales & Marketing		(9,973)	(10,323)	(7,234)	(3,607)
Research & Development		(7,312)	(8,991)	(4,795)	(4,422)
Finance costs	5	(643)	(549)	(611)	(505)
Net foreign exchange gain/(loss)	5	277	(441)	483	(761)
Loss before income tax expense	5	(1,595)	(4,680)	(2,529)	(2,574)
Income tax expense	6	–	(1)	–	–
Loss after income tax expense		(1,595)	(4,681)	(2,529)	(2,574)
Loss attributable to members of Compumedics Limited		(1,595)	(4,681)	(2,529)	(2,574)
		Cents	Cents		
Basic earnings per share	35	(1.1)	(3.3)		
Diluted earnings per share	35	(1.1)	(3.3)		

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

Balance Sheets

AS AT 30 JUNE 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
CURRENT ASSETS					
Cash and cash equivalents	7	3,319	3,922	2,845	3,365
Trade and other receivables	8	13,112	11,784	6,330	4,259
Inventories	9	4,826	5,962	2,669	3,556
TOTAL CURRENT ASSETS		21,257	21,668	11,844	11,180
NON-CURRENT ASSETS					
Receivables	10	–	–	5,245	7,464
Investments in controlled entities	11	–	–	435	542
Property, plant and equipment	12	918	1,521	540	1,011
Intangible assets	13	–	252	–	–
TOTAL NON-CURRENT ASSETS		918	1,773	6,220	9,017
TOTAL ASSETS		22,175	23,441	18,064	20,197
CURRENT LIABILITIES					
Trade and other payables	14	7,128	7,456	4,153	3,940
Interest bearing liabilities	15	3,196	5,805	2,280	5,260
Tax liabilities	16	72	72	–	–
Provisions	17	640	535	509	369
Deferred revenue	18	1,115	1,188	214	252
TOTAL CURRENT LIABILITIES		12,151	15,056	7,156	9,821
NON-CURRENT LIABILITIES					
Interest bearing liabilities	19	3,247	131	3,247	131
Provisions	20	60	115	60	115
TOTAL NON-CURRENT LIABILITIES		3,307	246	3,307	246
TOTAL LIABILITIES		15,458	15,302	10,463	10,067
NET ASSETS		6,717	8,139	7,601	10,130
EQUITY					
Contributed equity	21	29,020	29,020	29,020	29,020
Reserve	22	(385)	(558)	–	–
Accumulated losses	22	(21,918)	(20,323)	(21,419)	(18,890)
TOTAL EQUITY		6,717	8,139	7,601	10,130

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Total equity at the beginning of the financial year	8,139	13,837	10,130	13,404
Exchange differences on translation of foreign operations	173	(317)	–	–
Net income/(losses) recognised directly in equity	**173**	**(317)**	**–**	**–**
Losses for the full year	(1,595)	(4,681)	(2,529)	(2,574)
Total recognised income and expenses for year	(1,422)	(4,998)	(2,529)	(2,574)
Dividend paid	–	(700)	–	(700)
Total equity at the end of the financial year	**6,717**	**8,139**	**7,601**	**10,130**

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

Cash flows statements

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		36,938	37,386	18,836	18,079
Payments to suppliers and employees for R&D activities (inclusive of goods and services tax)		(6,901)	(7,883)	(4,795)	(4,422)
Other payments to suppliers and employees (inclusive of goods and services tax)		(32,602)	(29,683)	(14,794)	(14,934)
Interest received		119	210	119	210
Interest and other costs of finance paid		(643)	(534)	(643)	(489)
Receipts from grants and items of a similar nature received		–	132		57
Receipts from legal settlement net of associated expenses		1,711	–	1,711	–
Income taxes paid		–	5	–	–
Net cash (outflow) from operating activities	**34**	**(1,378)**	**(367)**	**434**	**(1,499)**
CASHFLOW FROM INVESTING ACTIVITIES					
Payment for purchase of controlled entity, net of cash required		–	(2,622)	–	–
Payment for investment		–	–	–	(394)
Payments for property, plant and equipment		(112)	(345)	(52)	(174)
Dividends		–	(700)	–	(700)
Net cash inflow (outflow) from investing activities		**(112)**	**(3,667)**	**(52)**	**(1,268)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		371	2,714	–	2,714
Proceeds from borrowings – with related parties		1,000	–	1,000	–
Intercompany transfers from Compumedics Limited to Compumedics USA Ltd		–	–	(596)	–
Inter Company transfer from Compumedics Limited to Compumedics Germany GmbH		–	–	(1,150)	(1,918)
Intercompany transfers to Compumedics Limited from Compumedics USA Ltd		–	–	699	1,596
Repayments of finance leases		(183)	(133)	(183)	(133)
Repayment of borrowings		(710)	(1,472)	(710)	(1,472)
Net cash inflow (outflow) from financing activities		**478**	**1,109**	**(940)**	**787**
Net increase (decrease) in cash and cash equivalents		**(1,012)**	**(2,925)**	**(558)**	**(1,980)**
Cash and cash equivalents at the beginning of the year	**7**	**3,328**	**6,352**	**3,365**	**5,444**
Effects of exchange rate movements on cash		38	(99)	38	(99)
Cash and cash equivalents at the end of the financial year	**7**	**2,354**	**3,328**	**2,845**	**3,365**

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

Contents of the Notes to the Financial Statements

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 periods presented, unless otherwise stated.

This consolidated financial report for the full year reporting period ended 30 June 2006 has been prepared in accordance with relevant accounting standards including *AASB1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

(a) Basis of preparation of financial report

Going Concern

During the full year ended 30 June, 2006 the consolidated entity (Compumedics) incurred an operating loss of $1.6m and experienced negative cash flows from operations of $1.4m contributed to in part by Compumedics' strategy and resolve to change and restructure the organisation to facilitate future growth of the business.

This past financial year has seen the continuation of an aggressive restructure across the sales and marketing functions in each geographic territory of the business. This has been combined with further restructuring of the operational facets of the business and the reduction of cash expenses by approximately $4.0m on an annualised basis. These cost reductions have largely been the result of head count reductions. The head count reductions have been implemented across all parts of the business.

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

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

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

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

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

The Directors confirm as previously advised that they agreed to issue a redeemable convertible note (RCN) to D&DJ Burton Holdings Pty Ltd (a company controlled by Mr Burton who is the major shareholder of Compumedics Limited) for a value of $1m as part of the on-going financing for the business. This facility was drawn down on April 30, 2006. The conversion of the loan note to a convertible equity instrument and the higher coupon are contingent upon Shareholder approval, which is to be sought immediately prior to the next Annual General Meeting. Further details of this RCN are explained in Note 15.

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

As a result of the above matters, 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.

Preparation of financial report

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

Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Compumedics Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with IFRS except for AASB124 *Related Party Disclosures* and AASB132 *Financial Instruments Disclosure and Presentations*.

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

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

Financial statements of Compumedics Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Compumedics Limited consolidated financial report for the full year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net loss are given in note 36.

Historical cost convention

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

Critical accouting 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judegment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1c.

(b) Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

- 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.

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

(e) Revenue recognition

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

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

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

On specific sales to end user customers the revenue recognition policy defers 12% (2005:12%) of revenue earned, until the post sale training and installation obligations have been completed, at which point in time the revenue is recognised.

(f) Income tax

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

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control 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 has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

(h) Business Combinations

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

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

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

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

(k) Trade receivables

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

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

(l) Inventories

Raw materials and stores, work in progress and finished goods

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

(m) Investments and other financial assets

From 1 July 2004 to 30 June 2005

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

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

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

From 1 July 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

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

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

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

(n) Property, plant and equipment

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

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

(o) Intangible assets

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

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

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

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) Borrowings

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

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

(r) Fair value estimation

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

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

(s) Borrowing costs

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

Borrowing costs include:

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

(t) Provisions

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

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

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

(u) Employee Benefits

(i) Wages and salaries and annual leave

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

(ii) Long Service Leave

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

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share Based Payments

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

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

(iv) Shares and options granted after 7 November 2002 and vested after 1 January 2005
No such options have been granted.

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

(v) Earnings per share

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

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

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

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

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

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

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

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

(ii) UIG 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
The Company does not have any interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Company's financial statements.

(iii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]
AASB 2005-9 is applicable to annual reporting periods beginning on or after January 1, 2006. The amendments relate to the accounting treatment for financial guarantee contracts. The Company does not have any interest in financial guarantee contracts. These amendments will not affect the Company's financial statements.

(iv) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASBB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after January 1, 2007. The Company has not adopted the standards early. Applications of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

(v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste and Electronic Equipment
UIG 6 is applicable to annual reporting periods beginning on or after December 1, 2006. The Company has sold electronic and electrical equipment on the European market however this interpretation will not affect the Company's financial statements.

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

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

(z) Financial instrument transaction costs

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

(aa) 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.

(ab) 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.

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.

(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 Company does not use derivative financial instruments.

The Company 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 Company 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 Company is subject to variations in its financial performance dependent upon the final USD/AUD and EUR/AUD exchange rates in any given period.

The Company'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 2006 of $0.2m and at the profit after tax line of approximately $0.02m on conversion of the US business. 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 2006 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.

(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 recent trading performance of the business. The Company 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 Company's deferred revenues at any point in time the Company makes a judgment regarding the typical costs the Company will incur in future periods for sales of goods that it has booked as revenue in the current and past periods.

The Company 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 and 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 2006 the impact would have been to reduce revenues by $0.15m and increase the loss by $0.15m.

(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 2006 would have a profit after tax impact of $0.1m in the year ended 30 June 2006.

Unlike the US business the parent entity still carries all of its inter company account with DWL as a receivable and has not deemed any component of this account as an investment in the DWL business at this point in time as he Company is still in the process of integrating and establishing this business.

Had the Company deemed part of this account as an investment in the current period then the probable profit after tax impact for the period would have been to take $0.2m of favourable foreign exchange gains booked to losses after tax to an equity reserve, with the affect of increasing the losses after tax for the Company for the year ended 30 June 2006 by $0.2m.

(d) Inventory

At any given point the Company has an obligation to carry its inventory at the lower of cost and net realizable value. In determining the Company's compliance with this requirement the Company 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 Company 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 Company this may mean that inventory that was previously considered usable and therefore of value may quickly become redundant, obsolete or simply no longer usable.

Therefore it may be that the provision for slow moving inventory has to be increased. For example if there was a +/-5% change in the carrying value of the inventory resulting an increase or decrease in the provision for slow moving stock then the losses after tax impact of this would be +/-$0.2m.

(e) Trade Receivables and others

Similarly for trade receivables the Company 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 many factors including:

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

Using this information the Company makes an assessment of the recoverability of its receivables. If there was a +/-5% movement in the recoverability of the Company's receivables then the provision for slow moving would need to be increased to reflect this. If such an outcome had occurred at 30 June 2006 and the provision had been increased to reflect this then the profit after tax impact would be approximately +/-$0.6m.

NOTE 2. SEGMENT INFORMATION

Primary reporting – Business Segments

2006	Sleep	Brain Research (Neuroscan)	Neuroscience (Clinical EEG & DWL)	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	–	–	26	–	92	118
Depreciation and amortisation	–	–	(252)	–	(693)	(945)

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Primary Reporting – Business Segments

2005	Sleep	Brain Research (Neuroscan)	Neuroscience (Clinical EEG & DWL)	Neuro Medical Supplies	Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'000
Sales to external customers	17,385	9,448	7,505	3,819	–	38,157
Intersegment sales	–	–	–	–	–	–
Total sales revenue	17,385	9,448	7,505	3,819	–	38,157
Other income/revenue	67	27	38	–	–	132
Total segment revenue/income	17,452	9,475	7,543	3,819	–	38,289
SEGMENT RESULT	(141)	(971)	(3,409)	641	(461)	(4,341)
Unallocated income/(expense)						(339)
Tax expense						(1)
Net profit after interest and tax						(4,681)
Segment assets	7,267	4,144	3,005	1,795	–	16,211
Unallocated assets						7,230
Tax assets						–
Total assets						23,441
Segment liabilities	3,497	1,846	1,719	493	–	7,555
Unallocated liabilities						7,675
Tax liabilities						72
Total liabilities						15,302
Net assets						8,139
Acquisition of property, plant and equipment	–	–	138	–	648	786
Acquisition of intangibles and other non-current segment assets	–	–	1,744	–	–	1,744
Depreciation and amortisation	–	–	(1,485)	–	(619)	(2,104)

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Secondary reporting

2006

	USA	Asia/Pac	EUR	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

Secondary reporting

2005

	USA	Asia/Pacific	Europe	Eliminations	Consolidated Amount
	$'000	$'000	$'000	$'000	$'000
Sales to external customers	16,634	15,919	5,604	–	38,157
Intersegment sales	1,179	2,828	623	(4,630)	–
Total sales revenue	17,813	18,747	6,227	(4,630)	38,157
Other income/revenue	–	132	–	–	132
Total segment revenue/income	17,813	18,879	6,227	(4,630)	38,289
Segment assets	2,893	20,147	2,791	(2,390)	23,441
Tax assets					–
Total assets					23,441

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Notes to and forming part of the segment information

(a) Explanation of Primary business segments

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

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

b) Geographical segments

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

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

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

	Consolidated		Parent	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
NOTE 3. REVENUE				
FROM CONTINUING OPERATIONS				
Sales revenue				
Sale of goods	35,913	37,217	20,044	18,018
Services	1,671	940	884	729
Other revenue				
Interest	119	210	119	210
TOTAL REVENUES FROM CONTINUING OPERATIONS	**37,703**	**38,367**	**21,047**	**18,957**
NOTE 4. OTHER INCOME				
Government Grants (note (a))	–	79	–	49
Other	94	53	–	8
Legal settlement proceeds (note (b))	1,079	–	1,079	–
TOTAL OTHER INCOME	**1,173**	**132**	**1,079**	**57**

(a) Government Grants

Export market development grants of $49,171 were recognised as other income in the prior period in the parent entity. No such grants were received and therefore recognised as other income in the full year to 30 June 2006. The consolidated entity received $79,392 in total goverment grants in the prior year. No such grants were received and therefore recognised as other income in the full year to 30 June 2006.

(b) 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.

	Consolidated		Parent entity	
	2006 $	2005 $	2006 $	2005 $
NOTE 5. EXPENSES				
Profit before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	585	580	416	333
Plant and equipment under finance leases	108	33	108	33
Total depreciation	693	613	524	366
Amortisation				
Intellectual property	252	383	–	–
Intellectual property – impairment	–	1,108	–	–
Total amortisation	252	1,491	–	–
Finance costs				
Interest and finance charges paid/payable	643	549	611	505
Total finance costs	643	549	611	505
Rental expense relating to operating leases				
Minimum lease payments	1,065	950	476	451
Total rental expense relating to operating lease	1,065	950	476	451
Foreign exchange gains and losses				
Net foreign exchange losses	(277)	441	(483)	761
Net foreign exchange losses recognised in profit before income tax for the year (as either income or expense)	(277)	441	(483)	761
Write off of assets	–	20	–	–
Employee benefits				
Payroll expense including leave payments	10,546	10,121	4,775	4,581
Superannuation entitlements	767	790	405	416
Total employee Benefits	11,313	10,911	5,180	4,997
Non-current receivables – impairment provision	–	–	3,667	–

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
NOTE 6. INCOME TAX EXPENSE				
The income tax expenses for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit(loss) from ordinary activities before income tax expense / (benefit)	(1,595)	(4,680)	(2,529)	(2,573)
Prima facie tax on profit (loss) @30%	(479)	(1,404)	(759)	(772)
Tax effect of amounts which are not deductible (taxable):				
25% Non-grant R&D loading/allowance	(360)	(312)	(360)	(312)
Entertainment	8	7	8	7
Unrealised foreign exchange movement	–	24	–	–
Under / (over) provision in previous year	(15)	(14)	–	–
Current year tax losses not brought to account (note (a),(c))	846	1,714	1,111	1,077
Income tax adjusted for permanent differences	–	15	–	–
Aggregate income tax expense / (benefit)	–	15	–	–
Aggregate income tax / (benefit) comprises:				
Current taxation provision	–	15	–	–
Deferred tax	–	–	–	–
Under / (over) provision in prior year	–	(14)	–	–
Income tax expense / (benefit)	–	1	–	–
TAX LOSSES				
The directors estimate that the Deferred tax assets at 30 June 2006, in respect of tax losses not brought to account is	4,195	3,578	3,583	3,399

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

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

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

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

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

(c) No deferred tax balances are recorded within the accounts of Compumedics Limited.

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
NOTE 7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	3,319	3,922	2,845	3,365
(a) Reconciliation to cash at the end of the year				
The following 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	3,319	3,922	2,845	3,365
Less Bank Overdraft per Note 15	(965)	(594)	–	–
Balances per statement of cash flows	2,354	3,328	2,845	3,365
Refer to Note 10 for interest rate risk.				
NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES				
Trade receivables (note (b))	12,969	11,397	6,159	4,040
Provision for doubtful receivables (note (a))	(436)	(593)	(204)	(209)
	12,533	10,804	5,955	3,831
Prepayments to key management personnel*	167	210	167	210
Other receivables/prepayments	208	426	208	218
Sales tax receivable	204	344	–	–
TOTAL	579	980	375	428
TOTAL TRADE AND OTHER RECEIVABLES	13,112	11,784	6,330	4,259

* Further information relating to key management personnel is set out in Note 24

(a) Bad and doubtful trade receivables
The Group has recognised a loss of $3,042 (2005: $133,691) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in "other expenses" 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 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000

NOTE 9. CURRENT ASSETS – INVENTORIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Raw materials and stores–at cost	3,070	5,160	2,977	3,164
Work in progress–at cost	1,168	1,226	256	491
Finished goods–at cost	4,008	2,210	1,631	1,898
Provision for obsolescence	(3,420)	(2,634)	(2,195)	(1,997)
TOTAL	4,826	5,962	2,669	3,556

(a) Provision for obsolescence
Write downs of inventory to net realisable value recognised as an expense during the year ended 30 June 2006 and highlighted above amounted to $967,867 (2005: $610,354)

NOTE 10. NON CURRENT ASSETS – RECEIVABLES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Amounts owing from controlled entities	–	–	8,912	7,464
Provision for impairment	–	–	(3,667)	–
TOTAL AT FAIR VALUE	–	–	5,245	7,464

The Company 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.

Further information relating to loans to related parties and key management personnel is set out in notes 24 and 30 respectively.

(a) 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.

		Fixed interest maturing in:							
	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 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%							

NOTE 10. NON CURRENT ASSETS – RECEIVABLES (CONTINUED)

Weighted average interest rate

		Fixed interest maturing in:							
	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
2005	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL ASSETS									
Cash and deposits	1,922	2,000	–	–	–	–	–	–	3,922
Receivables	–	–	–	–	–	–	–	11,784	11,784
Total	**1,922**	**2,000**	**–**	**–**	**–**	**–**	**–**	**11,784**	**15,706**
Weighted average interest rate	5.4%	5.4%							

(b) Credit risk

The Company at 30 June 2006 has approximately 10 customers which owe the Company more than $3m. These customers are spread across the world and have been trading with the Company for various periods of time. The Company 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		Parent	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Shares in subsidiaries (Note 32)	–	–	7,625	7,625
Provision for diminution	–	–	(7,190)	(7,083)
TOTAL	–	–	435	542

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 2004							
Cost	547	357	157	1,786	328	473	3,648
Accumulated depreciation	(434)	(207)	(65)	(1,043)	(328)	(202)	(2,279)
Net book amount	113	150	92	743	–	271	1,369
Year ended 30 June 2005							
Opening net book amount	113	150	92	743	–	271	1,369
Additions	27	73	–	456	229	–	785
Carrying value of assets scrapped	–	–	–	(20)	–	–	(20)
Depreciation/amortisation expense	(39)	(33)	(24)	(341)	(86)	(90)	(613)
Closing net book amount	101	190	68	838	143	181	1,521
At 30 June 2005							
Cost	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/amortisation expense	(31)	(108)	(25)	(361)	(115)	(53)	(693)
Closing net book amount	94	82	45	541	28	128	918
At 30 June 2006							
Cost	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

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 2004							
Cost	443	357	19	1,333	328	473	2,953
Accumulated depreciation	(385)	(207)	(19)	(913)	(328)	(202)	(2,054)
Net book amount	58	150	–	420	–	271	899
Year ended 30 June 2005							
Opening net book amount	58	150	–	420	–	271	899
Additions	27	73	–	149	229	–	478
Depreciation/amortisation expense	(26)	(33)	–	(131)	(86)	(90)	(366)
Closing net book amount	59	190	–	439	143	181	1,011
At 30 June 2005							
Cost	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/amortisation expense	(21)	(108)	–	(227)	(115)	(53)	(524)
Closing net book amount	38	82	–	264	28	128	540
At 30 June 2006							
Cost	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

(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.

NOTE 13. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Opening net book amount	252	1,743	–	–
Impairment charge**	–	(1,108)		
Amortisation charge*	(252)	(383)	–	–
Closing net book amount	–	252	–	–

* Amortisation of $252,633 (2005: $383,241) is included in depreciation and amortisation expense in the income statement.

** The carrying amount of the intangible assets of the DWL business acquired in September 2004 was reduced to its recoverable amount through recognition of an impairment loss against intellectual property acquired on transition to AIFRS as documented in Note 36.

NOTE 14. CURRENT LIABILITIES – Trade and other payables

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Trade payables	5,225	3,871	3,090	2,433
Other payables	1,250	2,836	538	790
Annual leave	653	749	525	517
Payable to controlled entities	–	–	–	200
TOTAL	**7,128**	**7,456**	**4,153**	**3,940**

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
NOTE 15. CURRENT LIABILITIES – Borrowings				
SECURED				
Bank loans	1,000	4,715	1,000	4,715
Bank overdraft	965	594	–	
Lease liability (note 28)	101	183	101	183
	2,066	5,492	1,101	4,898
UNSECURED				
Concessional loan (note (a))	106	313	106	313
Convertible notes (note (b))	1,024	–	1,024	–
Payable to controlled entities	–	–	49	49
TOTAL	**3,196**	**5,805**	**2,280**	**5,260**

(a) Concessional loan

The concessional loan was provided to the Company via an initiative from AusIndustry. The loan was drawn down in 1999. Repayments of $207,000 were made for the year ended 30 June 2006.

The concessional loan carries a fixed interest rate of 3.1%

(b) Convertible notes

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 convertibility of the RCNs into equity is subject to shareholder approval at the 2006 Annual General Meeting.

The RCNs carry a coupon rate of interest of up to 20% p.a. subject to shareholder approval at the AGM. In the event that the shareholders do not approve the convertibility of the RCNs, a default coupon rate of interest of 14.5% p.a. applies.

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.

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Face value of notes issued	1,000	–	1,000	–
Interest expense (i)	24	–	24	–
Current liability	**1,024**	**–**	**1,024**	**–**

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

NOTE 15. CURRENT LIABILITIES – Borrowings (Continued)

(c) Payable to controlled entities

The payable to controlled entities relates to a 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.

	Consolidated		Parent	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
NOTE 16. CURRENT LIABILITIES – Current tax liabilities				
Provision for taxation	72	72	–	–
NOTE 17. CURRENT LIABILITIES – Provisions				
Employee benefits–long service leave	328	201	328	201
Service warranties	312	334	181	168
TOTAL	**640**	**535**	**509**	**369**

WARRANTIES

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

MOVEMENT IN PROVISIONS

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

NOTE 17. CURRENT LIABILITIES – Provisions (continued)

	Warranties – Consolidated	Warranties – Parent
	$'000	$'000
Balance at 1 July 2005	334	168
Additional provisions recognised	108	100
Payments/other sacrifices of economic benefits	(130)	(87)
Balance at 30 June 2006	312	181

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
NOTE 18. CURRENT LIABILITIES – Deferred revenue				
Deferred revenue	1,115	1,188	214	252
TOTAL	**1,115**	**1,188**	**214**	**252**

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 54.

NOTE 19. NON CURRENT LIABILITIES – Borrowings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
SECURED				
Bank Loan	3,215	–	3,215	–
Lease liability (note 27)	32	131	32	131
TOTAL	**3,247**	**131**	**3,247**	**131**

NOTE 19. NON CURRENT LIABILITIES–INTEREST BEARING LIABILITIES (continued)

(a) Assets pledged as security

The bank loans and overdraft is 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 and Compumedics Medical Innovation Pty 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	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current					
First Mortgage					
Cash and cash equivalents	7	3,319	3,922	2,845	3,365
Trade and other receivables	8	13,112	11,784	6,330	4,259
Inventories	9	4,826	5,962	2,669	3,556
Total current assets pledged as security		21,257	21,668	11,844	11,180
Non-current					
First Mortgage					
Receivables	10	–	–	5,245	7,464
Other financial assets	11	–	–	435	542
Property, plant and equipment	12	918	1,521	540	1,011
Intangible assets	13	–	252	–	–
Total non-current assets pledged as security		918	1,773	6,220	9,017
Total assets pledged as security		**22,175**	**23,441**	**18,064**	**20,197**

(b) Financing arrangements

The following lines of credit were available to the business at balance date:

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Bank loan facilities				
Total Facilities	7,758	7,758	7,758	7,758
Used at balance date	5,313	6,300	5,313	6,300
Unused at balance date	2,445	1,458	2,445	1,458

NOTE 19. NON CURRENT LIABILITIES – INTEREST BEARING LIABILITIES (continued)

(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.

	Notes	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 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
Revenue in advance	18	–	–	–	–	–	–	–	1,115	1,115
Total		**5,313**	**1,130**	**–**	**–**	**–**	**–**	**–**	**8,243**	**14,686**
Weighted average interest rate:		8.65%	13.4%	–	–	–	–	–	–	–

	Notes	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
2005		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
FINANCIAL LIABILITIES										
Bank loans and facilities	15,19	5,624	207	106	–	–	–	–	–	5,937
Trade and other creditors	14	–	–	–	–	–	–	–	7,456	7,456
Other loans	18	–	35	–	–	–	–	–	–	35
Revenue in advance	18	–	–	–	–	–	–	–	1,153	1,153
Total		**5,624**	**242**	**106**	**–**	**–**	**–**	**–**	**8,609**	**14,581**
Weighted average interest rate:		7.44%	3.12%	3.12%	–	–	–	–	–	–

(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 is inclusive of costs which would be incurred on settlement of a liability.

(e) Net fair values

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

(f) 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.

(g) Forward exchange contracts

At 30 June 2006 and 30 June 2005 there were no outstanding forward exchange contracts.

NOTE 19. NON CURRENT LIABILITIES–INTEREST BEARING LIABILITIES (continued)

(h) Credit risk exposure

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

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
NOTE 20. NON CURRENT LIABILITIES–PROVISIONS				
Long service leave	60	115	60	115

	Parent and Consolidated			
	2006 number	2005 number	2006 $'000	2005 $'000
NOTE 21. CONTRIBUTED EQUITY				
Share capital	140,000,000	140,000,000	29,020	29,020

(a) Movements in ordinary share capital

Date	Details	Notes	Number of Shares	Issue price $'000	$'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

(b) Ordinary shares

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

(c) Options

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

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

NOTE 22. RESERVES AND RETAINED PROFITS

(a) Reserves

Movements in foreign currency translation reserves were as follows:				
Balance 1 July	(558)	(241)	–	–
Currency translation differences arising during the year	173	(317)	–	–
Balance 30 June	**(385)**	**(558)**	**–**	**–**

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

(b) Retained earnings

Movements in retained losses were as follows:				
Balance 1 July	(20,323)	(14,942)	(18,890)	(15,616)
Dividends	–	(700)	–	(700)
Net profit/(loss) for the year	(1,595)	(4,681)	(2,529)	(2,574)
Balance 30 June	**(21,918)**	**(20,323)**	**(21,419)**	**(18,890)**

NOTE 23. DIVIDENDS

Ordinary Shares

Final dividend for the year ended 30 June 2004 of 0.5 cents (2003-NIL) per fully paid share December 2005.				
Full franked based on tax paid at 30% – 0.5 cents per share	–	700	–	700

NOTE 24. 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

Koichiro Koike (retired September 2005)
Alan Anderson
Prof. Graham Mitchell
Bruce Rathie

Mr. Koichiro Koike was a Director from the beginning of the financial year through to his retirement in September 2005.

(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
Tim Gresham	Business Director, Asia and South America	Compumedics Limited
Paul Spooner	Business Director, Europe and Middle East	Compumedics Limited
Christoph Witte	Managing Director, DWL	Compumedics Germany GmbH
Anthony Curro	Vice President, Sales, America	Compumedics USA Limited
Curtis Ponton	Vice President, Chief Scientist Neuroscan	Compumedics USA Limited
Tom Lorick	Vice President, Marketing America	Compumedics USA Limited

All of the above persons were also key management persons during the year ended 30 June 2005, except for:
Tim Gresham who commenced employment with the Company July 2005
Paul Spooner who commenced employment with the Company April 2005
Anthony Curro who commenced employment with the Company June 2005
Tom Lorick who commenced employment with the Company May 2005

(c) Key management personnel compensation

	Consolidated		Parent	
	2006 **$**	**2005** **$**	**2006** **$**	**2005** **$**
Short-term employee benefits	2,243,490	1,866,123	1,282,375	1,283,179
Post-employment benefits	71,417	93,227	47,003	62,254
Share-based payments	–	–	–	–
TOTAL	2,314,907	1,959,350	1,329,378	1,345,433

The company has taken advantage of the relief provided by Corporations Amendment Regulations 2006 (No. 4) and has transferred the detailed remuneration disclosures to the Directors' report.

The relevant information can be found on pages 32 to 37 of the Director's Report.

NOTE 24. 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.

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.

2005 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	660,000	–	–	–	660,000	660,000
John Dyson (July 04–Oct 04)	216,000	–	–	–	216,000	216,000
Prof Graham Mitchell	66,000	–	–	–	66,000	66,000
Alan Anderson	86,000	–	–	–	86,000	86,000
Bruce Rathie (Oct 04–June 05)	–	–	–	–	–	–
Other key management personnel of the Group						
Warwick Freeman	660,000	–	–	–	660,000	660,000
David Lawson	660,000	–	–	–	660,000	660,000
Andrew Smith (resigned Aug 05)	100,000	–	–	–	100,000	100,000
David Loiterton (resigned Mar 05)	50,000	–	–	(50,000)	–	–
Stephen Sands (resigned May 05)	–	–	–	–	–	–
Christoph Witte	–	–	–	–	–	–

Mr Bruce Rathie was offered 20,000 options on his appointment as a non-executive director of Compumedics Limited, for which approval will be sought at the Annual General Meeting on 9th November 2006.

NOTE 24. 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.

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
Koichiro Koike (retired Sep 05)	–	–	–	–
Prof Graham Mitchell	–	–	–	–
Alan Anderson	25,000	–	–	25,000
Bruce Rathie	10,000	–	69,165*	79,165
Specified executives of the consolidated entity				
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.**

2005 **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	–	–	89,761,608
Koichiro Koike	–	–	–	–
John Dyson (July 04–Oct 04)	120,000	–	(120,000)	–
Prof Graham Mitchell	–	–	–	–
Alan Anderson	25,000	–	–	25,000
Bruce Rathie (Oct 04–June 05)	–	–	10,000*	10,000
Specified executives of the consolidated entity				
Ordinary Shares				
Warwick Freeman	82,000	–	–	82,000
David Lawson	180,000	–	50,000*	230,000
Andrew Smith (resigned Aug 05)	–	–	–	–
David Loiterton (resigned Mar 05)	–	–	–	–
Stephen Sands (resigned May 05)	–	–	–	–
Christoph Witte	–	–	–	–

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

NOTE 24. 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
	$	$	$	$	
2006	200,000	–	33,000	167,000	1
2005	200,000	–	–	200,000	1

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

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

2005 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	–	–	200,000	1

The prepaid bonus is anticipated to be recouped via the achievement of specific goals related to projects undertaken in Medical Innovations. It is expected the achievement of the specific goals will occur in the next year. The prepaid bonus is expected to be fully discharged by June 2007.

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.

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.

NOTE 24. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Aggregate amounts of liabilities at balance date relating to the above types of other transactions with key management personnel of the Group:				
Current payables	–	251,101	–	251,011
Redeemable convertible note				
Current Borrowings	1,024,167	–	1,024,167	–

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

The terms of this RCN issue are:

1. The RCNs carry a coupon rate of interest of up to 20% pa subject to shareholder approval and in the event that the shareholders do not approve the convertibility of the RCNs. Otherwise a default coupon rate of interest of 14.5% pa applies.
2. The RCNs are convertible into ordinary issued equity of the Company on the 1st and 2nd anniversary of their issue.
3. The RCNs have a 2 year life.
4. The conversion factor to be used if the holder elects to turn the RCNs into ordinary equity of the Company is the average share price for 5 days immediately prior to the issue of the RCN.
5. The $1m is payable within 30 days of the issue of the RCN.
6. The ability of the note holder to convert the RCN into ordinary equity of the Company requires the approval of the shareholders. The approval of the shareholders is to be sought at the next Annual General Meeting. As the note holder is a related party to the Company they will not be able to vote on the proposal. The consequences of approval not being given for conversion of the issue into ordinary shares of the Company are that the RCNs are redeemable by the note holder at the note holder's discretion and a $50,000 penalty fee applies.

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
NOTE 25. 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:				
Assurance services				
1. Audit services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work under the Corporations Act 2001	222,079	145,500	222,079	145,500
Related practices of PricewaterhouseCoopers Australian firm	54,190	38,000	–	–
Total remuneration for audit services	**276,269**	**183,500**	**222,079**	**145,500**
2. Taxation Services				
Tax compliance services, including review of company income tax returns	–	23,287	–	23,287
Related practices of PricewaterhouseCoopers Australian firm	–	14,499	–	–
Total	**–**	**37,786**	**–**	**23,287**

Compumedics Limited changed its taxation advisor in the financial year ended 20 June 2005.

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 26. CONTINGENCIES

Contingent liabilities
The parent entity and consolidated entity had no contingent liabilities at 30 June 2006.

Contingent assets
The parent entity and consolidated entity had no contingent assets at 30 June 2006.

NOTE 27. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures
The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in note 19.

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

(c) Derivative instruments
Compumedics Limited and certain of its controlled entities may be party to derivative financial instuments 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 instuments in place.

Forward exchange contracts
The USA operations sell products into the USA market in US dollars. The German operations sell products into the European markets in Euro. At 30 June 2006 and 30 June 2005 there were no outstanding forward exchange contracts.

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

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

NOTE 28. COMMITMENTS

Operating leases

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

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	1,154	1,145	496	475
Later than one year but not later than 5 years	1,482	2,408	639	1,063
Commitments not recognised in the financial statements	2,636	3,553	1,135	1,538

FINANCE LEASES

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Commitment in relation to finance leases are payable as follows:				
Within one year	118	221	118	221
Later than one year but not later than 5 years	38	156	38	156
Minimum lease payments	156	377	156	377
Less: Future finance charges	(5)	(22)	(5)	(22)
Less: Future Executory Charges	(1)	(2)	(1)	(2)
Less: Future GST Charges	(17)	(38)	(17)	(38)
Total	133	315	133	315
Representing lease liabilities				
Current (note 15)	101	183	101	183
Non-Current (note 19)	32	132	32	132
Total	133	315	133	315
Weighted average interest rate	6.64%	7.60%	6.64%	7.60%

NOTE 29. 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.

NOTE 29. SHARE BASED PAYMENTS (CONTINUED)

The Company did not have any share based payments in the full year ended 30 June 2006.

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

Compumedics Limited Employee Option Plan

Grant date	Expiry date	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
			Number	Number	Number	Number	Number
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

Grant date	Expiry date	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
			Number	Number	Number	Number	Number
Consolidated and parent entity–2005							
21/Dec/00	21/Dec/05	0.50	4,663,000			(270,000)	4,393,000
4/Jun/01	4/Jun/06	0.89	10,000				10,000
1/Aug/01	1/Aug/06	0.60	10,000				10,000
30/Sep/01	30/Sep/06	0.56	22,500				22,500
31/Oct/01	31/Oct/06	0.01	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*
8/Sep/03	8/Sep/08	0.43	50,000			(50,000)	–
11/Mar/04	11/Apr/09	0.31	50,000				50,000
Total			**5,195,645**	**–**	**–**	**(320,000)**	**4,875,645**
Weighted average exercise price (cents)			0.48			0.49	0.47

*** 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.**

NOTE 30. RELATED PARTY TRANSACTIONS

(a) Key management personnel

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

A Director, Alan Anderson, is a partner in the American legal firm of Fulbright & Jaworski L.L.P. (Fulbrights). 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.

(b) Wholly-owned group

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

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

(c) Subsidiaries

Ownership interests in the controlled entities are set out in Note 32.

(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 2006 and 2005 consisted of:

	Consolidated		Parent entity	
	2006 $	2005 $	2006 $	2005 $
Sales of goods and services				
Sales of electronic equipment to Compumedics USA Ltd from Compumedics Limited	–	–	2,345,254	2,828,170
Sales of electronic equipment to Compumedics Germany GmbH from Compumedics Limited	–	–	114,187	–
Purchase of goods				
Purchase of electronic equipment from Compumedics USA Ltd by Compumedics Limited	–	–	1,536,087	1,178,903
Purchase of electronic equipment from Compumedics Germany GmbH by Compumedics Limited	–	–	75,474	85,097
Cash transfers				
Cash transfers from Compumedics USA Ltd to Compumedics Limited	–	–	698,672	1,595,589
Cash transfers from Compumedics Limited to Compumedics USA Ltd	–	–	595,940	–
Cash transfers from Compumedics Limited to Compumedics Germany GmbH	–	–	1,150,418	1,918,775
Other transactions				
Purchase of legal services from Fulbrights	1,382,530	545,694	1,382,530	322,119
Receipt of RCN from D Burton	1,000,000	–	1,000,000	–
Interest on RCN	24,000	–	24,000	–

(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:

NOTE 30. RELATED PARTY TRANSACTIONS (CONTINUED)

	Consolidated		Parent entity	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Aggregate amounts receivable from entities in the wholly-owned group at balance date:				
Loan account	–	–	4,604,679	4,396,445
Trading account	–	–	4,307,843	3,067,985
	–	–	8,912,522	7,464,430
Less provision for impairment	–	–	(3,667,598)	–
Total non-current receivables	–	–	5,244,924	7,464,430

A provision for impairment of the carrying value of receivables was raised and charged to the income statement of the parent entity during the year ended 30 June 2006 in the amount of $3,667,598.

(f) Loans to/from related parties

	Consolidated		Parent entity	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Loans to/from subsidiaries				
(a) Compumedics Limited to Compumedics USA Ltd				
Balance at 1 July	–	–	4,396,445	4,794,922
Loans advanced	–	–	–	–
Loans repaid	–	–	–	–
Foreign exchange movement taken to income statement	–	–	208,234	(398,477)
Balance at 30 June	–	–	4,604,679	4,396,445
Trading accounts to/from subsidiaries				
(a) Compumedics Limited to Compumedics USA Ltd				
Balance at 1 July	–	–	1,176,210	866,799
Net movement in trading activities	–	–	431,421	309,411
Balance at 30 June	–	–	1,607,631	1,176,210
(a) Compumedics Limited to Compumedics Germany GmbH				
Balance at 1 July	–	–	1,918,744	–
Net movement in trading activities	–	–	781,468	1,918,744
Balance at 30 June	–	–	2,700,212	1,918,744
Loans to/from director				
Balance at 1 July	–	–	–	–
Loans advanced	1,000,000	–	1,000,000	–
Interest	24,000	–	24,000	–
Loans repaid	–	–	–	–
Balance at 30 June	1,024,000	–	1,024,000	–

(g) Guarantees

No guarantees have been given from related parties.

NOTE 30. 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.

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.

	Consolidated		Parent entity	
	2006 **$**	**2005** **$**	**2006** **$**	**2005** **$**
Outstanding balance owing to Fulbrights for legal services performed	885,502	251,011	885,502	251,011

Terms and conditions of the RCN are set out in note 24.

NOTE 31. BUSINESS COMBINATIONS

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1A (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.

Prior Year

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

Details of the acquisition are as follows:

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

Current year

Upon transition to AIFRS the Company reviewed the carrying value of the intellectual property at June 30, 2005 in relation to the acquisition of the DWL business. At that time and in accordance with AASB 136 Impairment of Assets the business reduced the carrying value of the intellectual property as described in Note 36.

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

NOTE 32. SUBSIDIARIES

Name of entity	Country of incorporation	Class of shares	Equity holding 2006 %	Equity holding 2005 %	Cost of parent entity's investment 2006 $'000	Cost of parent entity's investment 2005 $'000
Compumedics Telemed Pty Ltd.	Australia	Ordinary	100	100	7,083	7,083
Compumedics Neuro Science 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					(7,190)	(7,083)
TOTAL					**435**	**542**

NOTE 33. EVENTS OCCURRING AFTER BALANCE SHEET DATE

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

NOTE 34. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Loss for the year	(1,595)	(4,681)	(2,529)	(2,574)
Depreciation and Amortisation	945	2,104	524	366
Doubtful debts	(4)	115	(4)	63
Net exchange differences	(147)	(317)	–	–
Property lease benefit amortisation	(34)	(8)	–	–
Impairment of investment subsidiaries	–	–	107	–
Non current assets written off	–	21	–	–
Impairment of loans in subsidiaries	–	–	3,667	–
CHANGE IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY				
Decrease (Increase) in receivables	(1,328)	(1,233)	(2,478)	(757)
Decrease (Increase) in inventories	1,136	1,432	887	345
Decrease (Increase) in other current assets	–	(358)	–	47
(Decrease) Increase in payables	(328)	2,782	213	1,112
(Decrease) Increase in deferred revenues	(73)	(351)	(38)	(222)
(Decrease) Increase in provision for income taxes payable	–	21	–	–
(Decrease) Increase in provisions	50	106	85	121
Net Cash Inflow / (Outflow) from Operating Activities	**(1,378)**	**(367)**	**434**	**(1,499)**

NOTE 35. EARNINGS PER SHARE

	Consolidated	
	2006 Cents	2005 Cents
Basic earnings per share	(1.1)	(3.3)
Diluted earnings per share	(1.1)	(3.3)

	Consolidated	
	2006 Number	2005 Number
Weighted average number of ordinary shares outstanding during the year used in the calulation of basic and diluted earnings per share	140,000,000	140,000,000

Reconciliation of earnings used in calculating earnings per share

The numerator used in calculation of both Basic EPS and Diluted EPS is a loss of $1,595,000 (2005: $4,680,000) and there are no reconciling items to the profit from ordinary activities after income tax expense.

Options

Options that have been granted are considered to be potential ordinary shares, however their conversion to ordinary shares does not increase the profit/loss per share, as such the options are not dilutive and have not been included in the determination of diluted earnings per share. Also the options have not been included in the determination of basic earnings per share. Detail of options are set out in Note 29.

Options granted to employees under the Compumedics Limited Employee Option Plan are considered to be potential ordinary shares.

The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 29.

The options granted on 20 December 2002 are not included in the calculation of diluted earnings per share because they are anti dilutive for the year 30 June 2006.

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS

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

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

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		6,352	–	6,352
Trade and other receivables		10,308	–	10,308
Inventories		6,481	–	6,481
Total current assets		**23,141**	**–**	**23,141**
Non current assets				
Receivables		–	–	–
Property, plant and equipment		1,368	–	1,368
Intangible assets		–	–	–
Total non current assets		**1,368**	**–**	**1,368**
Total assets		**24,509**	**–**	**24,509**
LIABILITIES				
Current Liabilities				
Trade and other payables		4,614	–	4,614
Borrowings		1,884	–	1,884
Current tax liabilities		55	–	55
Provisions		346	–	346
Deferred revenues	(a)	1,330	108	1,438
Total current liabilities		**8,229**	**108**	**8,337**
Non current liabilities				
Borrowings		2,122	–	2,122
Deferred revenues		15	–	15
Provisions		198	–	198
Total Non Current Liabilities		**2,335**	**–**	**2,335**
Total liabilities	(a)	**10,564**	**108**	**10,672**
Net assets	(a)	**13,945**	**(108)**	**13,837**
EQUITY				
Contributed equity		29,020	–	29,020
Reserves	(c)	–	(241)	(241)
Accumulated losses	(a),(c)	(15,075)	133	(14,942)
Total equity		**13,945**	**(108)**	**13,837**

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

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

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		3,922	–	3,922
Trade and other receivables		11,784	–	11,784
Inventories		5,962	–	5,962
Total current assets		**21,668**	**–**	**21,668**
Non current assets				
Property, plant and equipment		1,521	–	1,521
Intangible assets	(b)	1,360	(1,108)	252
Total non current assets		**2,881**	**(1,108)**	**1,773**
Total assets		**24,549**	**(1,108)**	**23,441**
LIABILITIES				
Current Liabilities				
Payables		7,456	–	7,456
Borrowings	(d)	1,390	4,415	5,805
Current tax liabilities		72	–	72
Provisions		535	–	535
Deferred revenues	(a)	1,088	100	1,188
Total current liabilities		**10,541**	**4,515**	**15,056**
Non current liabilities				
Borrowings	(d)	4,546	(4,415)	131
Provisions		115	–	115
Total Non Current Liabilities		**4,661**	**(4,415)**	**246**
Total liabilities		**15,202**	**100**	**15,302**
Net assets		**9,347**	**(1,208)**	**8,139**
EQUITY				
Contributed equity		29,020	–	29,020
Reserves	(c)	–	(558)	(558)
Accumulated losses	(a),(b),(c)	(19,673)	(650)	(20,323)
Total equity		**9,347**	**(1,208)**	**8,139**

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

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

	Notes	Previous AGAAP $'000	30 June 05 Effect of transition to AIFRS $'000	AIFRS $'000
Revenues from continuing operations		38,367	–	38,367
Other income		132	–	132
Cost of goods		(17,864)		(17,864)
Administration	(a)	(5,019)	8	(5,011)
Sales and marketing		(10,323)	–	(10,323)
Research and development	(b)	(7,883)	(1,108)	(8,991)
Finance costs		(549)	–	(549)
Net foreign exchange loss	(c)	(758)	317	(441)
Loss before income taxes		**(3,897)**	**(783)**	**(4,680)**
Income tax expenses		(1)	–	(1)
Loss after income taxes		**(3,898)**	**(783)**	**(4,681)**

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

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

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

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

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

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		5,444	–	5,444
Trade and other receivables		5,094	–	5,094
Inventories		3,901	–	3,901
Total current assets		**14,439**	**–**	**14,439**
Non current assets				
Receivables		5,662	–	5,662
Other financial assets		148		148
Property, plant and equipment		899	–	899
Intangible assets		–	–	–
Total non current assets		**6,709**	**–**	**6,709**
Total assets		**21,148**	**–**	**21,148**
LIABILITIES				
Current Liabilities				
Trade and other payables		2,826	–	2,826
Borrowings		1,933	–	1,933
Current tax liabilities		–	–	–
Provisions		165	–	165
Deferred revenues		484	–	484
Total current liabilities		**5,408**	**–**	**5,408**
Non current liabilities				
Borrowings		2,122	–	2,122
Deferred revenues		15	–	15
Provisions		198	–	198
Total Non Current Liabilities		**2,335**		**2,335**
Total liabilities		**7,743**	**–**	**7,743**
Net assets		**13,404**	**–**	**13,404**
EQUITY				
Contributed equity		29,020	–	29,020
Reserves		–	–	–
Accumulated losses		(15,616)	–	(15,616)
Total equity		**13,404**	**–**	**13,404**

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

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

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		3,365	–	3,365
Trade and other receivables		4,259	–	4,259
Inventories		3,556	–	3,556
Total current assets		**11,180**	**–**	**11,180**
Non current assets				
Receivables		7,464	–	7,464
Other financial assets		542	–	542
Property, plant and equipment		1,011	–	1,011
Total non current assets		**9,017**	**–**	**9,017**
Total assets		**20,197**	**–**	**20,197**
LIABILITIES				
Current Liabilities				
Payables		3,940	–	3,940
Borrowings	(d)	845	4,415	5,260
Current tax liabilities		–	–	–
Provisions		369	–	369
Deferred revenues		252	–	252
Total current liabilities		**5,406**	**4,415**	**9,821**
Non current liabilities				
Borrowings	(d)	4,546	(4,415)	131
Provisions		115	–	115
Total Non Current Liabilities		**4,661**	**(4,415)**	**246**
Total liabilities		**10,067**	**–**	**10,067**
Net assets		**10,130**	**–**	**10,130**
EQUITY				
Contributed equity		29,020	–	29,020
Reserves		–	–	–
Accumulated losses		(18,890)	–	(18,890)
Total equity		**10,130**	**–**	**10,130**

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

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

	Notes	Previous AGAAP $'000	30 June 05 Effect of transition to AIFRS $'000	AIFRS $'000
Revenues from continuing operations		18,957	–	18,957
Other income		57	–	57
Cost of goods		(9,504)	–	(9,504)
Administration		(2,789)	–	(2,789)
Sales and marketing		(3,607)	–	(3,607)
Research and development		(4,422)	–	(4,422)
Finance costs		(505)	–	(505)
Net foreign exchange loss		(761)	–	(761)
Loss before income taxes		**(2,573)**	**–**	**(2,574)**
Income tax expenses		–	–	–
Loss after income taxes		**(2,573)**	**–**	**(2,574)**

3 Reconciliation of cash flow statement for the year ended June 30, 2005 – Parent
The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

4 Notes to the reconciliations

(a) Property Lease (Group)
Pursuant with the requirements of AASB117 a restatement of lease expenses associated with the Company's office facility in El Paso Texas is required as under the terms of the lease the annual increase in rents over the term of the lease are not based on CPI adjustments. As a consequence the Company is required to charge lease payments associated with this lease on a straight line basis over the 5 year term of the lease.

The effect is:

At July 1, 2004
An increase in the retained losses of the business (Group) of $107,874 and increase in other current liabilities of the same amount. This reflects the fact that the actual lease payments in the first two years of the lease were less than those in the last three years of the lease.

At June 30, 2005
An increase in the retained losses of the business (Group) of $100,060 and increase in other current liabilities of the same amount.

For the year ended 30 June 2005

A reduction in the loss of the business (Group) by $7,814.

NOTE 36. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENT TO IFRS (CONTINUED)

(b) Impairment of assets (Group)

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

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

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

The effect is:

At June 30, 2005
An increase in the retained losses of the business (Group) of $1,108,000 and reduction in intangible assets of the same amount.

For the year ended June 30, 2005
An increase in the loss of the business (Group) by $1,108,000.

4 Notes to reconciliations (continued)

(c) Foreign currency translation reserve (Group)

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

The effect is:

At July 1, 2004
The foreign currency translation reserve was (Group) $240,430 and retained losses were reduced by the same amount.

At June 30, 2005
The foreign currency translation reserve was (Group) $557,907 and retained losses were reduced by the same amount.

For the year ended June 30, 2005
A reduction in the loss of the Group by $316,688.

(d) Reclassification of long term borrowings (Group and Parent)

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

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

The effect is:

At June 30, 2005
An increase in the current borrowings of the Company by $4,414,655 and a decrease in the non-current borrowings by the same amount.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2006

In the directors' opinion:

(a) the financial statements and notes set out on pages 46 to 100 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 32 to 38 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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
29 September 2006

Independent Audit Report

TO THE MEMBERS OF COMPUMEDICS LIMITED

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COMPUMEDICS LIMITED

PricewaterhouseCoopers
ABN 52 780 433 757

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MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This audit report relates to the financial report and remuneration disclosures of Compumedics Limited (the Company) and the Compumedics Limited Group (defined below) for the financial year ended 30 June 2006 included on Compumedics Limited web site. The Company's directors are responsible for the integrity of the Compumedics Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

AUDIT OPINION

In our opinion:

1. the financial report of Compumedics Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Compumedics Limited and the Compumedics Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and
2. the remuneration disclosures that are contained on pages 32 to 38 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures (AASB 124) and the *Corporations Regulations 2001*.

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

SCOPE

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Compumedics Limited (the company) and the Compumedics Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 32 to 38 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

A Linschoten

Anton Linschoten
Partner

Melbourne
29 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

Shareholders' Information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 15 September, 2006.

SHAREHOLDINGS

Substantial Shareholders

Name	Number of ordinary shares held	%
D & DJ Burton Holdings Pty Ltd	89,803,103	64.1
Teijin Limited	8,293,698	5.9
AMP Life Limited	3,196,173	2.3
Total		**72.3**

D & DJ Holdings Pty Ltd hold Compumedics shares totalling 87,761,608 and Electro Molecular Pty Ltd hold Compumedics shares totalling 2,041,500. These entities are both 100% owned by the Burton family.

Distribution of Shareholders

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

301 shareholders hold less than a marketable parcel.

Voting rights

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

Unquoted equity securities	Number of issue	Number of holders
Options issued under the Compumedics Employee Share Option Plan to take up ordinary shares	372,645	4

TWENTY LARGEST SHAREHOLDERS

Name	Number of Ordinary shares	%
D & DJ Burton Holdings Pty Ltd	87,761,608	62.7
Teijin Limited	8,293,698	5.9
AMP Life Limited	3,196,173	2.3
Electro Molecular Pty Ltd	2,041,500	1.5
Ms. Helen Margaret Sedman + Dr. Sally Leigh Middleton	992,000	0.7
John Tilton Pty Ltd	849,409	0.6
Dr. Russell Kay Hancock	800,000	0.6
ANZ Nominees Limited	630,000	0.4
Mrs. Joan Elaine Steel	570,000	0.4
Dental Healthcare Associates Pty Ltd	567,000	0.4
Southam Investments 2003 Pty Ltd	552,000	0.4
Mr. David Lawson	531,923	0.4
Mr. Paul Henry Golding	500,000	0.4
Summit Twenty-Five Pty Ltd	500,000	0.4
Mr. Mladen Marusic	450,000	0.3
Dr. Kerry Trent Hubick	425,000	0.3
Mr. Lance Peter Thomas	419,801	0.3
Dr. Ken Whitton	415,801	0.3
Mr. Graham Lenzner + Mrs. Loretta Lenzner	400,000	0.3
Mr. Anthony Meng Hout Tan	400,000	0.3
Mr. Andrew McNeil Penny	386,600	0.3

The 20 largest shareholders hold 76.78% of the ordinary shares of the Company

Glossary

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

Glossary of Defined Terms

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

Glossary of Medical Terms

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

Corporate Directory

BOARD OF DIRECTORS

Mr David Burton

Mr Bruce Rathie

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

Vice President – Sales, Americas

Anthony Curro

Vice President, Marketing Americas

Tom Lorick

General Managing Director DWL
Compumedics Germany GmbH

Christoph Witte

Business Director EMEA

Paul Spooner

Business Director, Australia
and New Zealand

Andrew Kegele

Business Director, Asia and
South American

Tim Gresham

Vice President, Operations and Service USA

Steve Johnson

Vice President, Chief Scientist, Neuroscan

Curtis Ponton

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

AUDITOR

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

SHARE REGISTERS

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

SOLICITORS

Freehills
Level 48
101 Collins Street
Melbourne VIC 3000

Corrs Chambers Westgarth
600 Bourke Street
Melbourne Vic 3000

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

BANKERS

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

STOCK EXCHANGE LISTINGS

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