

A N N U A L   R E P O R T  
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## **ANNUAL GENERAL MEETING**

Thursday 24th October 2002 at 10.00 am

To be held at: Compumedics Limited  
1 Marine Parade  
Abbotsford VIC 3067

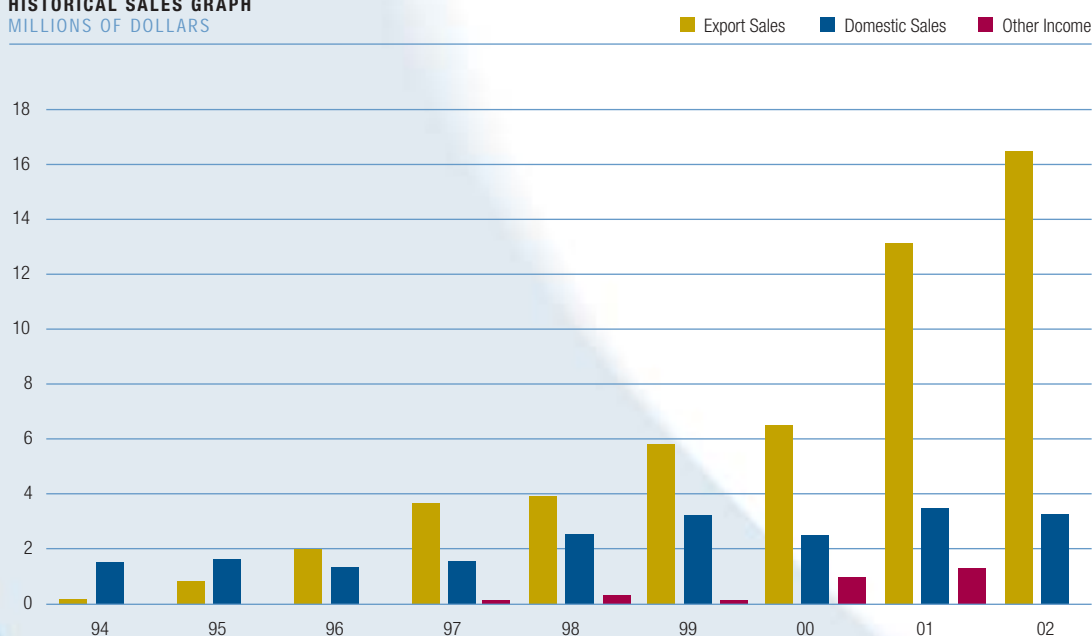
## FINANCIAL HIGHLIGHTS

Financial Highlights Year ended 30 June 2002. All figures in \$A'000 unless otherwise stated.

	2002	2001	% change
Total Revenue	20,211	18,317	10.3
Operating Revenue	19,747	16,639	18.7
Earnings before interest, income tax, depreciation and amortisation	(405)	4,223	N/A
Earnings before interest and income tax	(2,393)	3,041	N/A
Operating profit after tax	(1,898)	1,971	N/A
Research and development costs capitalised as a percentage of total revenue*	13.1%	12.2%	8.2
Total Assets at 30 June	43,624	39,197	11.3
Shareholders funds at 30 June	30,226	32,163	(6.0)
Net Tangible Assets per share at 30 June (cents)	9.5	14.4	(34.0)
Weighted average number of shares (million)	140	115	21.7
Earnings per share (basic) (cents)	(1.4)	1.7	N/A
Earnings per share (adjusted for amortisation of intellectual property acquired) (cents)	(0.8)	2.1	N/A

\*Excluding intellectual property capitalised on acquisitions

**HISTORICAL SALES GRAPH**  
MILLIONS OF DOLLARS





## A LETTER FROM THE CHAIRMAN

Dear Investor,

This is the second year for Compumedics as a public company – a year of major events and challenges. We have experienced a number of strong and positive developments, including the strengthening of our core sleep technology business, the Neuroscan acquisition, the restructuring of our USA and Europe distribution strategy, the development of key growth platform technologies and the release of a number of significant new products.

These positive developments have not been reflected in our annual financial results, with the Company recording a loss at the earnings before interest, tax, depreciation and amortisation (EBITDA) line of (\$405k) compared to a \$4,223k profit for the previous corresponding period. Growth in revenues was again strong at 19%, but was lower than that enjoyed in previous periods.

We were pleased to exceed the first year financial forecasts detailed in the IPO prospectus, but disappointed that we did not meet the second year forecasts. The performance of the business through to June 30, 2002 was largely attributable to our key distributor in both the US and European markets underperforming against our expectations. This issue has now been resolved as we move forward into the new financial year with our own direct sales resources for USA and new distributors for Europe. The Company has also instigated an across the board cost savings target of \$2.5m per annum.

These changes coupled with the acquisition of Neuroscan provide a solid platform for Compumedics as we move forward.

The strength of our technological edge continues to be demonstrated by the enthusiastic acceptance of our new Somté sleep technology. Initially, Somté was adopted by Japan's leading sleep company Teijin Limited (a AU\$14 billion conglomerate) and recently by Europe's leading medical company, Dräger Medical AG & Co. KgaA (a AU\$1.5 billion conglomerate).

The Neuroscan acquisition has particular significance for Compumedics. Neuroscan is now a profitable business in its own right, and there is an exciting synergy between the two businesses. Combining Neuroscan's strengths in neurophysiology with Compumedics' expertise in sleep diagnostics, gives a strong competitive advantage in the burgeoning field of diagnosing and treating sleep related disorders.

The USA and Europe represent 80% of the world market for medical devices. Whilst we endeavoured to recover lost ground through implementing our own sales force, there was not enough time in the current period to make up our revenue shortfall.

However, we now have an expanded direct sales team in place in the USA and although this investment has further impacted 2002 FYE profits, we are in a strong recovery position for 2003 FYE and beyond. Similarly, the recent announcement of our new Dräger Medical relationship sets a revived path for our European business.

Asia, which is one of the most exciting regions for future medical devices growth, continues to be a resounding success for Compumedics. Our Asian sleep diagnostic business grew by 71% over last year's revenue and we have seen 385% growth in our business in China. Our long-standing relationship with Teijin in Japan is flourishing in both product sales and strategic cooperation.

Our strategy remains absolutely clear. We will continue to build our core sleep diagnostic business and leverage that expertise to expand into new growth areas including neurology and cardiology monitoring, fatigue monitors for automobiles, in-depth anaesthesia and sleep treatment. We have established outstanding relationships with industry leaders Teijin and Dräger and will continue to identify strategic partners who can assist us to develop and commercialise our new technologies.

We are clearly focused on our leading position in sleep monitoring and diagnostic technology – a market sector experiencing double-digit growth virtually all over the world.

The productivity of all company operations is also a key area of attention for the Compumedics management team. We have been through a phase of substantial growth in infrastructure but we are committed to continuously improving the efficiency with which we conduct all our activities.

International share markets are clearly unsettled at present but I'm confident that good quality companies with the right fundamentals and sound strategies will emerge from the pack to deliver value to shareholders. I firmly believe that our company is on the right track with a clear vision, leading edge technology, excellent partners and great people working for us.

I look forward to sharing a successful 2002/2003 with all of our stakeholders.

**David Burton**  
Executive Chairman, CEO

## REVIEW OF OPERATIONS

The 2001/2002 financial year has seen a number of positive developments for Compumedics including the acquisition of Neuroscan, the release of a number of new products including the Safiro (an ambulatory EEG version of the Siesta), the strengthening of our core technology through on-going product and software enhancements and continuing development of the growth platform technologies.

Whilst consolidated revenue increased 19% from \$16.6 million in 2001 to \$19.7 million in the current financial year, the positive developments mentioned were not reflected on the Company's earnings line with consolidated EBITDA for the twelve months to June 30 2002 being \$(0.4) million compared to \$4.2 million in the same period for 2001. Net profit after tax (NPAT) for the current year was \$(1.9) million compared to \$2.0 million for the previous corresponding period.

The financial result largely reflects problems with our distributor for the key USA hospital and European markets. This resulted in a significant shortfall in revenues and therefore earnings. The United States remains the key engine for growth and the Company took steps during the course of the year to ensure that Compumedics obtained access to the entire sleep diagnostics market in the USA for its direct sales force. In January 2002, the previously exclusive distributor became non-exclusive and we began increasing the size of our direct US sales force. This decision has had a further short-term impact on earnings because of the typical 6 to 12 months lead time to convert initial interest into sales.

In Europe, where the same distributor also had exclusive distribution rights for our sleep products in the major countries in that region, Compumedics negotiated a non-exclusive arrangement from May

2002. Since then, with the acquisition of Neuroscan, which has an office in Hamburg, Germany, Compumedics has taken direct control of the growth of the European market.

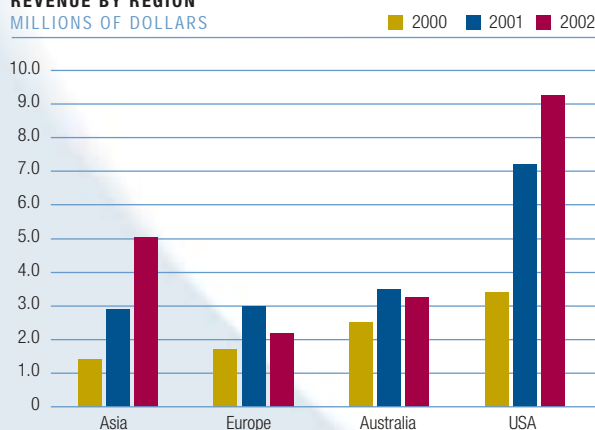
In Asia, Compumedics has had direct control of sales and distribution during the year and revenues have increased by 71% over the previous corresponding period.

As part of Compumedics' strategy to broaden its technology and product offering into the associated sleep fields of neurology and cardiology, the Company acquired the Neuroscan business in April 2002. In the two months that the Neuroscan business was owned by Compumedics it contributed revenues of \$2.7m and NPAT of \$0.3m.

Demonstrating Compumedics' on-going commitment to research and development, the Company spent approximately 13% of its revenue on research and development. Compumedics remains committed to setting the pace of technological innovation in diagnostic and monitoring devices for sleep and associated disorders. In the new calendar year, Compumedics will release a completely new software platform which includes network and database functionality not available in other sleep diagnostic products. A new SynAmp (a highly sophisticated research amplifier) for Neuroscan will also be launched as will further enhancements right across the product range.

Having experienced a difficult year, Compumedics is set to resume growth in the current year with unfettered access to the key US and European markets and a full year's benefit from the acquisition of the Neuroscan business. Our reputation for superior products and reliable quality and our determination to remain at the forefront of innovation will continue to drive the business forward in all our target markets.

**REVENUE BY REGION**  
MILLIONS OF DOLLARS



## GEOGRAPHIC ACTIVITIES

### Australia

The Australian market is Compumedics home market and one where we continue to maintain a market share of approximately 70% in the sleep diagnostic market and approximately 50% in the clinical neurological market.

Key Statistics	2002	2001
Operating Revenues (\$m)	3.4	3.5
Employees	68	72
Distributors	N/A	N/A

The sleep diagnostic and clinical neurological diagnostics markets in Australia continue to grow in line with international markets. Compumedics will grow and gain market share in this market through the introduction of new products and the expansion of its product range such as through the acquisition of the Neuroscan business.

In the Australian market, Compumedics competes with major international sleep diagnostic suppliers but continues to maintain market share through superior product technology. It is also through superior product technology that Compumedics has developed and is maintaining its market share in clinical neurological diagnostics.

Compumedics' facility in Abbotsford, Melbourne remains home to the Company's manufacturing and research and development activities. The acquisition of Neuroscan has led to the consolidation of the manufacturing function of both businesses. Accordingly, Compumedics will move into a new, larger facility in Abbotsford in October 2002.

### USA

The USA remains the largest medical device market in the world and a key market for Compumedics and Neuroscan products.

Key Statistics	2002	2001
Operating Revenues (\$m)	9.1	7.2
Employees	54	10
Distributors	1	1

1. In the 2002 numbers, Neuroscan represents \$2.7m in operating revenues and 40 employees.

2. The previously exclusive distributor became a non-exclusive distributor in the USA hospitals from January 2002.

Compumedics' sleep diagnostic business was impacted by problems associated with its distributor for the key USA hospital market. This situation has since been resolved.

Overall revenues were up 26.6% including the acquisition of Neuroscan. The USA market is the home market for the Neuroscan business where it maintains an approximate 90% market share in research neurology.

Compumedics further invested in its US direct sales force during the year and has consolidated its operational activities at Neuroscan's facility in El Paso, Texas, providing a solid platform for growth into the future.

The Company maintains its office in Minneapolis, Minnesota as a technical service centre for sleep customers.

Compumedics will continue to develop its business in the USA through the growth of its direct sales force, and the development of the combined sleep and neuro diagnostics businesses.



## Asia

Key Statistics	2002	2001
Operating Revenues (\$m)	5.0	2.9
Employees	3	0
Distributors	15	16

The Asian region posted revenue growth of 71% year on year for Compumedics during the current financial year.

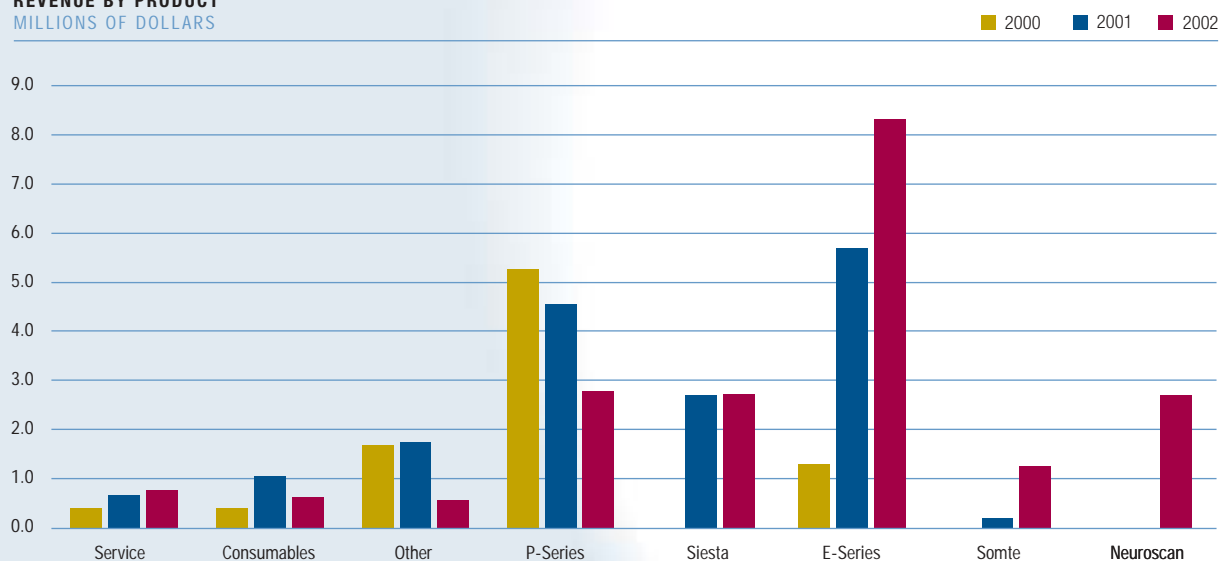
In August 2002 Compumedics set up a small office in Singapore with the acquisition of the business of REM Technologies for \$0.1m.

This has formed a technical support base for the Company's customers in the region and a sales point for regional distributors.

During the last twelve months Compumedics' business in China has seen revenue growth of over 300% to approximately \$1.1m.

In Japan, Compumedics' distributor and strategic partner Teijin Limited continued to grow its business. The Japanese market for sleep disorders, as with the rest of the Asian market, has yet to fully develop.

## REVENUE BY PRODUCT MILLIONS OF DOLLARS





## Europe

The decrease in revenue in the European region in the current year reflects the problems the Company encountered with its distributor.

Key Statistics	2002	2001
Operating Revenues (\$m)	2.1	3.0
Employees	4	0
Distributors	7	4

The Company regained access to the European market in May 2002 when the previously exclusive distributor moved to a non-exclusive arrangement for the European region.

Since then, with the acquisition of Neuroscan and its office in Hamburg, Germany, the Company has been in the process of developing a direct presence to support its distributors in the region.

After balance date, Compumedics also announced its relationship with Dräger Medical for the Somté device into the German market. The German market is the second biggest medical device market in the world and this relationship, combined with a physical presence in Hamburg, places Compumedics in a strong position to exploit this region.

## PRODUCT DEVELOPMENT

Compumedics is a global leader in the development of diagnostics and monitoring technologies in the sleep disorder, neurology and cardiology fields and is committed to an ongoing program of product advancement and development.

During the past financial year, Compumedics has continued to enhance its position in the core product areas by:

- Introducing new products in ambulatory neurology (Safiro),
- Entering new markets with the CE approval of the Somté and the release of the E-Series in Japan, and
- Further improving our core software.

With the addition of Neuroscan's suite of core intellectual property, we have also embarked on a program of cross leveraging the expertise and technologies between the two areas of sleep disorders and research neurophysiology.

In addition to these core research and development activities, the Company continues to actively pursue its technology related to four growth platforms:

- cardiology
- treatment
- driver fatigue
- in-depth anaesthesia

Compumedics has taken up these opportunities in line with expectation and believes they will continue to evolve as documented in the prospectus.

Compumedics has many collaborative arrangements with researchers and universities that, together with our sales force, marketing staff, distributors and manufacturers representatives, provide continuous feedback on new ideas for product development.

These ideas, together with input from Compumedics' Medical Advisory Board, provide a constant view of market and research expectations and future product demands for the Company's product development.

## MEDICAL ADVISORY BOARD

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

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

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



**Professor Jack Clausen B.Sc., M.D.  
Chairman.**

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

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



**Professor Rob Pierce M.B.B.S.,  
M.R.A.C.P., F.R.A.C.P., M.D., F.C.C.P.**

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

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



**Dr. Yuji Takasaki, B.Sc., M.D.**

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

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

## MANUFACTURING

Compumedics' sole manufacturing facilities are located in Melbourne, Australia. The manufacturing operations consist of surface mounting of boards, assembly and testing of devices and the assembly of sensor and electrodes.

As part of the acquisition of Neuroscan, Compumedics restructured the business and began the process of moving its manufacturing from El Paso, Texas to the Melbourne facility. This process is now largely complete and will lead to further margin improvements as the through put of the factory increases.

The Company will move to larger facilities in Abbotsford to support the anticipated growth of the business over the coming years.

Compumedics has in the past manufactured to order. However, as a result of increasing business and delivery expectations in the USA, the Company has switched to manufacturing according to internal sales forecasts.

Quality control remains a key focus of the business and many tests and checks are performed in the manufacturing process to ensure compliance with specifications set by the Company.

As the business grows, an on-going and important focus for Compumedics continues to be the maximising of the efficiency and cost effectiveness in the manufacturing process.



# SLEEP AND NEURO DIAGNOSTICS

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With the increasing awareness of an overlap between sleep and neurological disorders, Compumedics now offers a comprehensive range of sleep and neuro diagnostic solutions.

# SLEEP DIAGNOSTICS

## WHAT IS A SLEEP DISORDER?

A sleep disorder is a medical condition that affects a person's ability to have a 'normal' night's sleep. There are 84 classified sleep disorders ranging from snoring, obstructive sleep apnoea and insomnia to narcolepsy. Identified in 1966, obstructive sleep apnoea (OSA) is the most common form of sleep disorder and is a serious and potentially life threatening condition. Of the estimated 40 million Americans believed to suffer from treatable sleep disorders it is thought that 50% suffer from OSA.

The word apnoea is a Greek word meaning "with no breath". OSA is the temporary collapse of a patient's upper airway during sleep. While it is normal for the upper airway to narrow during deep sleep, sufferers of sleep apnoea commonly have a narrow upper airway or poor muscle tone. During sleep their upper airway closes completely (an apnoea) causing snoring and breathing difficulties. The inability to breathe results in a gradual decline in blood oxygen until the brain is forced to respond by subconsciously waking the person to restart breathing. These periods of non-breathing can last for 10 seconds or longer and can occur 200-300 times in a standard night's sleep. Patients are generally not aware of apnoeas, but will more likely be aware of the symptoms associated with the sleep disorder, such as fatigue and daytime sleepiness. Often it is the patient's partner who is most aware of apnoeas, the disturbed sleep patterns and severe snoring.

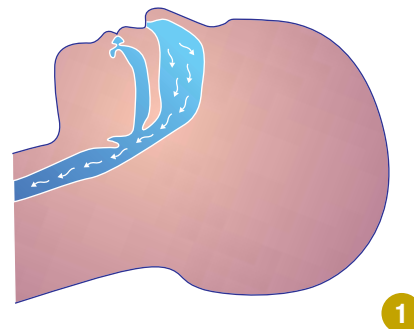
People most prone to OSA are likely to already snore, be overweight or have high blood pressure. Some also have a physical abnormality of the nose, throat or other part of the upper airway.

## HOW ARE SLEEP DISORDERS DIAGNOSED?

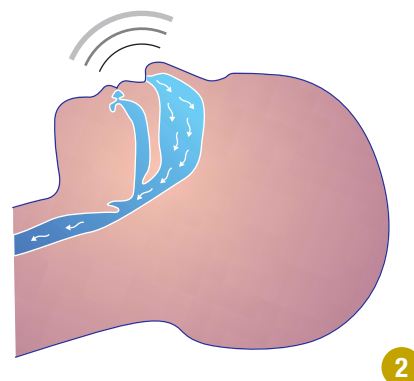
General practitioners will refer patients who suffer from a combination of sleep-related symptoms (severe snoring, daytime tiredness, general fatigue and poor sleep patterns) to sleep physicians or respiratory physicians. At the specialist's recommendation, the patient may need to undertake a sleep study either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. (In home studies the patient is connected to a portable sleep diagnosis device prior to sleep.) For 8 to 10 hours, breathing patterns, leg movements, eye movements, patient position and responses to light, sound and temperature are monitored using ECG, EEG, EMG, SaO<sub>2</sub>, TcCO<sub>2</sub> and CPAP (a Continuous Positive Air Pressure device). High resolution monitors display on-line and off-line physiological waveforms as well as trend analysis data.

## PERSON WITH OBSTRUCTIVE SLEEP APNOEA SYNDROME

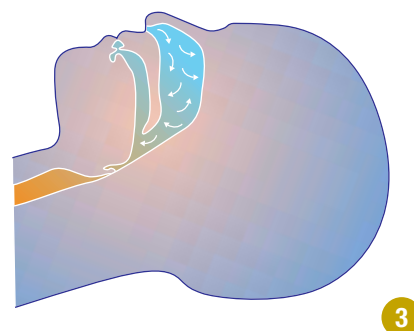
### OPEN AIRWAYS



### PARTIALLY OBSTRUCTED AIRWAYS



### OBSTRUCTED AIRWAYS AS EVIDENT DURING OSAS





## HOW COMMON ARE SLEEP DISORDERS?

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

This rate of occurrence ranks sleep disorders as more prevalent than asthma in the USA. Sleep disorders remain a relatively new area of medicine and due to the lack of awareness, a large percentage of sufferers are currently undiagnosed. Certain segments of the population appear to be at more risk of developing sleep disorders. Typical sufferers are middle-aged males, with a history of severe snoring. There are also certain risk factors that increase the chance of developing sleep disorders including:

- Obesity
- Ageing
- Genetic predisposition
- Smoking
- Alcohol consumption

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

## WHY IS THE DETECTION OF SLEEP DISORDERS IMPORTANT?

Untreated sleep disorders, especially OSA, may lead to long-term health issues (in particular cardiology and neurology complaints) as the hundreds of apnoeas per night place pressure on the heart and the central nervous system.

It is these long-term health consequences that have raised awareness of sleep disorders and the importance of their early detection and treatment. Relatively simple treatments for sleep disorders can significantly improve life quality and expectancy for sufferers. The predominant treatment for OSA is CPAP – a small air pump attached to a mask that keeps the air passages open during sleep.

A number of reports have highlighted the serious consequences and long-term health effects of sleep disorders. These studies have included the 'Wake-Up America' report to the US Congress and the US National Health funded Sleep Heart Health Study that studied the consequences of sleep disorders by monitoring the cardiology functions of 6,697 patients.

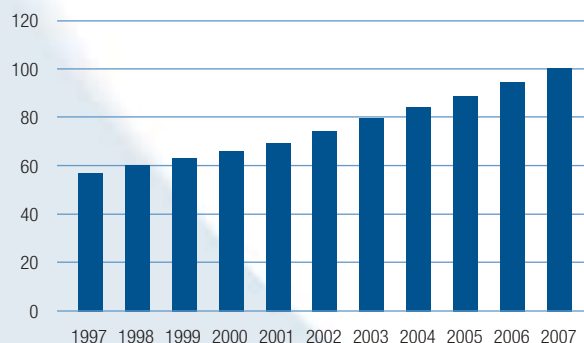
## SIZE OF THE SLEEP MARKET

The sleep market is broadly divided into three sectors:

- Therapeutic equipment
- Diagnostic equipment
- Sleep tests

The following graph demonstrates the growth in the US medical device sector of the market.

**REVENUE FORECAST – USA (DIAGNOSTIC DEVICES MARKET)**  
MILLIONS OF US DOLLARS



Source: Frost & Sullivan, US Sleep Apnea Diagnostic and Therapeutic Market, 2001

The US sleep device market is considered to represent approximately 50% of the world market. This implies that the global market for medical sleep devices is approximately US\$790 million per annum.

In addition to sales of medical devices, it is estimated that one million sleep studies are undertaken each year in the USA alone. Assuming a study cost of US\$1,000 the total cost of sleep studies is approximately US\$1 billion per annum.

## SLEEP CLINICS

The majority of the sleep clinics are affiliated with hospitals but there has been a trend towards stand-alone sleep clinics. Each clinic is typically one to six beds.

The number of sleep clinics in the USA has increased considerably over the last decade. This is a reflection of the growing awareness of sleep disorders and associated health consequences, and reimbursement available under the US-funded Medicare.

Despite the substantial growth of sleep clinics, it is not unusual for a patient to have to wait from six months to one year before being diagnosed in a sleep clinic.

Compumedics believes that the backlog of patients who are requiring diagnosis will be addressed if and when the following occurs:

- (i) There is a continued increase in the number and size of sleep clinics;
- (ii) Due to the development of wireless technology, hospitals offer 'virtual' sleep clinic beds outside a formal sleep clinic; and
- (iii) There is an increased use of home monitoring to diagnose patients with sleep disorders.

The benefits of home monitoring include:

- (i) A patient usually feels more comfortable in their home environment and therefore has a more typical sleep resulting in a more accurate diagnosis;
- (ii) Hospitals are not required to have dedicated sleep beds and staff to monitor patients during the night; and
- (iii) The tests tend to be less expensive.

Compumedics believes that despite the considerable increase in the number of sleep clinics, the available testing facilities are inadequate to diagnose the volume of patients with potential sleep disorders.

## LINKS TO OTHER DISEASES

Sleep disordered breathing is more common in people with high blood pressure, heart disease and a number of other common medical conditions. It is thought that the lowering of blood oxygen during sleep and the frequent apnoeic episodes contribute to vascular, heart and brain dysfunction (such as stroke and memory impairment) for people with these medical conditions.

Sleep disordered breathing is also more common in people with spinal cord injury and may contribute to daytime dysfunction and excessive sleepiness in this group. There is also a newly discovered link between sleep disordered breathing and toxemia of pregnancy and it may be that upper airway obstruction disrupting sleep leads to the high blood pressure in this condition.

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

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

## SLEEP THERAPEUTICS

A patient who suffers from sleep disorders typically has a choice of four main treatments, each of which have varying degrees of success:

- (i) CPAP machine
- (ii) Oral appliances
- (iii) Surgery
- (iv) Behavioural adjustment

The use of CPAP machines for treating patients with OSA is the most common method of treatment and involves a patient wearing a mask over their nose during sleep. The mask is connected to an air blower, which forces sufficient air through the nasal passages to keep the airways open.

CPAPs are carefully calibrated to meet the individual requirements of the patient, providing the minimum amount of air pressure to keep the airways open.



# NEURO DIAGNOSTICS

## CLINICAL NEUROPHYSIOLOGY

Clinical Neurophysiology is the study of electrical activity in the brain, spinal cord, nerves and muscles for the diagnosis and monitoring of neurological based diseases. Commonly used for diagnostics, intensive care and intraoperative monitoring, the methods used to study clinical neurophysiology fall into three categories:

### 1. Electroencephalography (EEG)

An EEG is a recording of the electrical activity of the brain. Discovered in the 1920s, EEGs have traditionally been conducted by collecting and amplifying brain impulses into ink-fed pens on a moving paper strip chart. With technological advances however, digital EEGs have become more popular as electrical impulses are amplified and recorded directly onto a computer. This not only enables better data storage capacity, but enables the same EEG signals to be viewed from a number of different perspectives from the same time period.

EEGs are widely used to study the function of the brain and are particularly valuable in diagnosing the presence and type of seizure disorders, sleep disorders, head injuries, brain tumors, infections, degenerative diseases and metabolic disturbances affecting the brain. EEGs are also used to investigate periods of unconsciousness and are useful in confirming brain death in a comatose patient.

### 2. Electromyography (EMG)

An EMG is a test that measures the electrical activity of the muscles in response to nervous stimulation. Useful for gathering information on the muscular and nervous systems, EMGs are most often conducted to determine impaired muscle strength caused by neurologic disorders.

### 3. Evoked Potentials (EP)

Evoked Potentials is a test that measures the electrophysiological responses of the nervous system to a variety of stimuli. Although in theory, almost any sensory function may be tested, only a few are used in clinical practice on a routine basis. The ones most often encountered are the visual evoked responses (VEP), somatosensory evoked responses (SEP), and brainstem auditory evoked responses (BAER).

## BRAIN RESEARCH

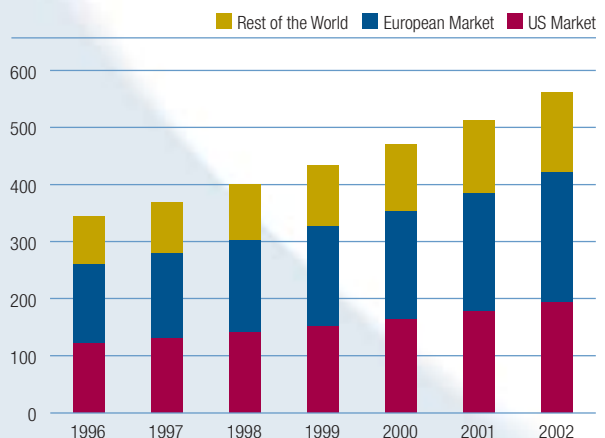
Brain research is, as the name suggests, the study of the brain's functionality, using Quantitative EEG (QEEG) methods to supplement traditional EEG findings. With the advent of high speed digital information processing and statistical analysis, QEEGs extract and quantify brain electrical activity to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

QEEG methods vary and may range from simple surface mapping of recorded EEG activity, to complex models that accurately define the source of these electrical activations in a three dimensional model of the head. QEEG mapping techniques highlight regions of interest to the neuroscientist in understanding brain function and may assist in clinical diagnosis and treatment planning of some medical conditions.

## NEURO DIAGNOSTICS MARKET

In 2002, the world market for EEG, EMG and Brain Function Monitoring devices is estimated at US\$561 million, growing at a rate of around 8.5% since 1996. Even though Europe leads the world market with a dominant 40% market share, the USA is the single largest market for EEG, EMG and Brain Function Monitoring devices, accounting for nearly 35% or US\$195 million.

**REVENUE GROWTH – WORLDWIDE MARKET  
(EEG/EMG/BRAIN FUNCTION MONITORING DEVICES)**  
MILLIONS OF US DOLLARS



SOURCE: Innomed International, EEG/EMG/Brain Function Markets, 1996

## THE BUSINESS OF COMPUMEDICS

Compumedics is a global technology leader of computer-based sleep monitoring and diagnostic systems. The Company's core business is the development and commercialisation of technology with a focus on the fast growth, high value sleep medicine market. Compumedics has sold its products and services in over 20 countries. The Company is a leader in the sleep diagnostics devices market in Australia, with a market share of 70% and a growing international business, especially in the USA, which the Company estimates accounts for 50% of the world sleep diagnostics market.

It is the Company's intention to use its sleep diagnostic technology as a platform to expand its product range into a number of new monitoring and diagnostic areas. This strategy commenced with the establishment of the EEG monitoring product range, which is now sold worldwide. Since then, Compumedics has experienced excellent growth in the clinical EEG market, becoming Australia's leading developer of clinical EEG technologies. Within 18 months, Compumedics gained an estimated 40% market share in Australia from a zero base, which was a result of the Company achieving approximately 90% of all Australian and New Zealand EEG sales.

### THE ACQUISITION OF NEUROSCAN

Neuroscan is the world's leading developer of brain research instruments, commanding 90% of the US market for research EEG applications, and a significant market share globally. Over 1500 universities, corporate laboratories and national research centres in over 50 countries currently use Neuroscan products.

Research has shown that up to 61% of first-ever stroke patients suffer from some degree of sleep disordered breathing. With the increasing awareness of an overlap between sleep and neurological disorders, the acquisition of Neuroscan was the next logical stage of Compumedics' evolution as a medical technology company, making Compumedics a leading player in the associated field of neuro diagnostic technologies.



# PRODUCTS AND TECHNOLOGY

## CLINICAL APPLICATIONS

### Amplifiers



#### E - Series • Siesta • Safiro

##### E-Series

A comprehensive, network-linked amplifier system for Sleep/EEG. The TCP/IP architecture allows access to E-Series amplifiers from any computer on the laboratory network.

##### Siesta

Integrating wireless data transmission to change the way you perform diagnostic testing. Its size, flexibility and power make this universal data recorder a truly versatile system.

##### Safiro

This ambulatory EEG system pushes aside many of those historical limitations of high cost, poor recording quality and limited channel availability.

### Accessories



## Sleep • Neurology

### Australian Clinical PSG

- 70% market share and growing
- Clients include large private and public hospitals, sleep clinics and research institutions
- World leading technology such as the Wireless Siesta and Sleep/Heart Somte monitor

### Australian Clinical EEG

- 40% market share and growing
- Clients include large health institutions (such as the Austin Research and Medical Centre) and a growing private neurologists segment
- Awarded Queensland Health Bulk EEG Tender 2001/ 2002
- Complete upgrade to Austin Hospital Epilepsy Monitoring Unit to include Siesta Wireless System for Long Term monitoring
- The E-Series portable system is gaining in popularity (especially with private neurologists)
- Proactive development with customers for new features and software updates

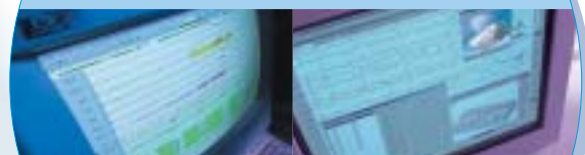
### Digital Video

This highly developed video package allows for an optimised and synchronised view of all patient activities during the recording process and during record review/scoring.

### Digital Video



### Acquisition, Analysis and Reporting Software



#### Profusion PSG • Profusion EEG

##### ProFusion PSG

A high-powered, comprehensive sleep analysis program to optimise your laboratory efficiency by improving scoring speed and providing clear, accurate results in the report formats you need.

##### ProFusion EEG

Capable of clinical 24-channel recordings to long-term, 64-channel studies, it efficiently collects and reviews EEG recordings and digital video, runs sophisticated analyses (QEEG), and archives test data.

### Cardio Respiratory System



#### Somt 

##### Somt 

An investigative tool for "holter-style" recording of both cardiac and respiratory data, supported by comprehensive software analyses to assist in understanding sleep and cardiology disorders.

### EMG System

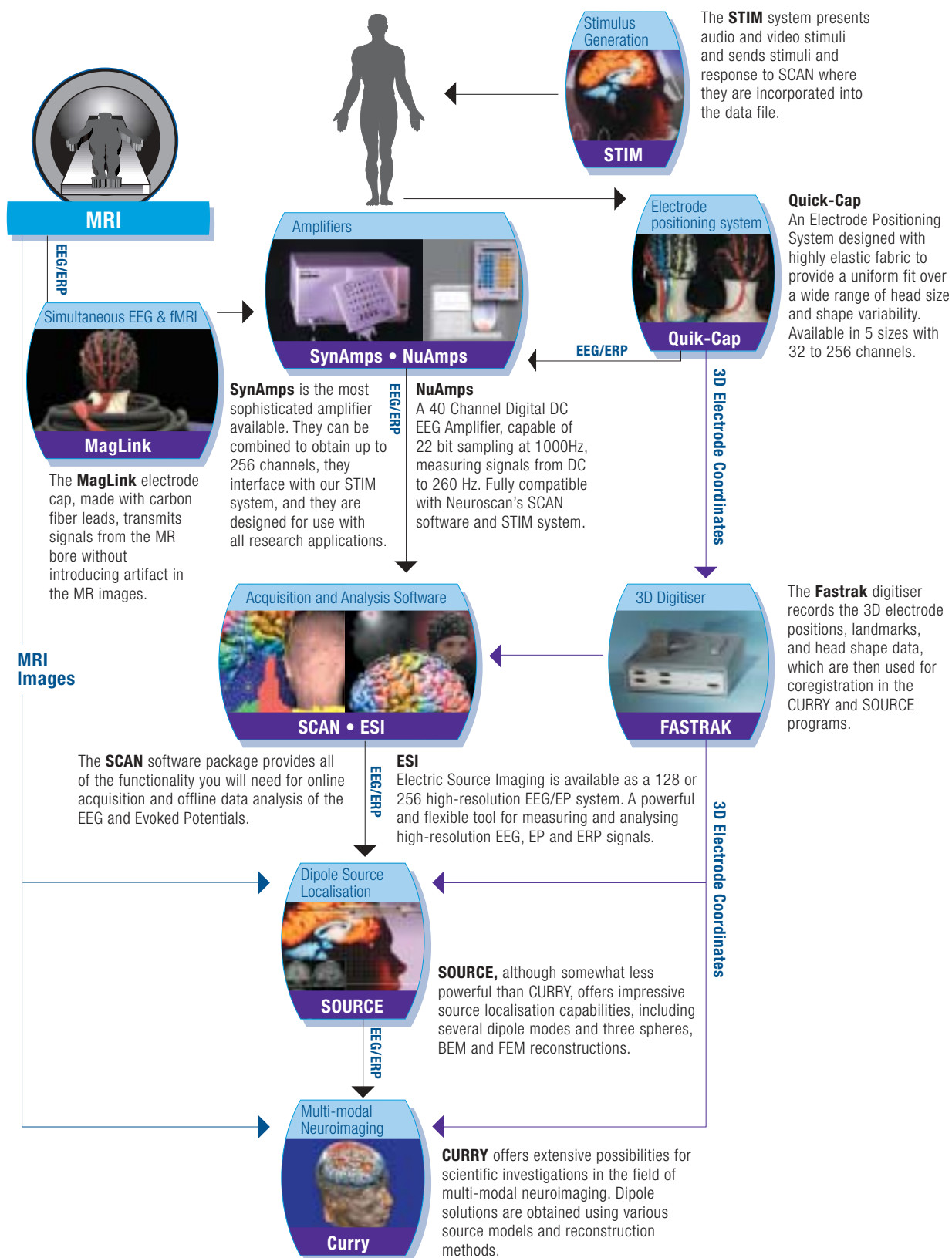


#### Comperio

##### Comperio

An EMG system that delivers quality and flexibility at an affordable price. With its open architecture design, you can build an EMG instrument to meet your special requirements.

## INSTRUMENTS FOR BRAIN RESEARCH





## BOARD OF DIRECTORS

Compumedics is committed to developing a world class working environment that rewards individuals for the contributions they, and their teams, make to the business each year.

Compumedics is proud of the diversity of its people, and continues to develop its people infrastructure under the guidance of the Senior Management Team and the Board.

### **Mr David Burton**

EXECUTIVE CHAIRMAN, CEO



Mr Burton, 43, is the founder of Compumedics. He started his career at the Bureau of Meteorology, where he studied radar techniques and electronic equipment. He is the founder of Linear Transfer Pty Ltd. which designed, manufactured and marketed high fidelity recording and sound equipment. Mr Burton has authored fourteen publications and patents that form part of the Company's key intellectual property.

He has a demonstrated track record in all aspects of running a technology business, including research and development, technical and business management, project management, intellectual property management and sales and marketing. Mr Burton has an Associate Diploma in Electronics from the Royal Melbourne Institute of Technology.

Mr. Burton was honoured with the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology.

He is a member of the Victorian Government's Council for Knowledge, Innovation, Science and Engineering.

### **Mr Koichiro Koike**

NON-EXECUTIVE DIRECTOR



Mr Koike, 45, worked for Compumedics as an export market development adviser from 1992 to 1998, during which time he secured substantial funding from Teijin Limited for the development of P-Series products. This subsequently led to Teijin being appointed as Compumedics' exclusive distributor in Japan. Still a Japanese national, he has been a permanent resident in Australia since 1990.

### **Professor Graham Mitchell AO**

NON-EXECUTIVE DIRECTOR



Professor Mitchell, 61, is recognised as one of Australia's leading biological scientists. His expertise extends over a wide range of science and technology fields. He has a detailed knowledge of the academia and industry interface, has authored more than 350 publications, and received numerous awards for scientific achievement. In 1993 Professor Mitchell was appointed an Officer of the Order of Australia for services to science, in particular immunoparasitology. Professor Mitchell is a principal of Foursight Associates Pty Ltd., and Non-Executive Director of Antisense Therapeutics Limited, the Geoffrey Gardner Dairy Foundation and AVS Pty Ltd. He acts as a principal adviser to the Victorian Government through the Council for Knowledge, Innovation, Science and Engineering. He is joint Chief Scientist for the Department of Natural Resources and Environment.

## SENIOR MANAGEMENT TEAM

**Mr Alan Anderson**

NON-EXECUTIVE DIRECTOR



Mr Anderson, 46, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented Compumedics for all legal matters in the USA since late 1998. Mr Anderson completed his Bachelor of Arts with Honours (Political Science) at Coe College. He also holds a Master of Business Administration with Distinction, a Doctor in Law with Honours from Cornell University, and a Certificate in International Business and Commercial Law from the McGeorge School of Law (University of the Pacific).

**Mr John Dyson**

NON-EXECUTIVE DIRECTOR



Mr Dyson, 39, is an experienced venture capital manager, having made investments in a range of industries and technology companies. He is an Investment Principal of Starfish Ventures Pty Ltd. and has been involved in the venture capital industry since 1995. Mr Dyson has a background in corporate finance where he specialised in cross border merger and acquisition opportunities.



**Mr David Burton**

EXECUTIVE CHAIRMAN, CEO



**Mr Warwick Freeman**

CHIEF TECHNOLOGY OFFICER  
& GENERAL MANAGER



**Mr David Lawson**

CHIEF FINANCIAL OFFICER  
& COMPANY SECRETARY



**Mr Dan Moore**

VICE PRESIDENT SALES & MARKETING



**Mr Andrew Smith**

GENERAL MANAGER MANUFACTURING



**Mr David Loiterton**

GENERAL MANAGER SALES  
& MARKETING, AUSTRALASIA



**Dr Stephen Sands**

PRESIDENT, NEUROSCAN LTD.

# FINANCIAL REPORT

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# DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2002.

## 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
- Koichiro Koike
- John Dyson
- Alan Anderson
- Prof. Graham Mitchell

Effective from 1st July 2002, Mr Koichiro Koike changed from an executive director to a non-executive director.

## PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity were the manufacture and distribution of medical diagnostic equipment.

During the financial year Compumedics Limited acquired the business of Neuroscan. Neuroscan is also a medical diagnostic business. The acquisition occurred on the 23rd April, 2002.

## DIVIDENDS – COMPUMEDICS LIMITED

The Directors have not declared a dividend in the current financial year, consistent with the stated policy.

## REVIEW OF OPERATIONS

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

	Sales revenue		Segment results	
	2002	2001	2002	2001
	\$	\$	\$	\$
Australia	3,383,709	3,493,064	(3,266,246)	1,268,350
USA	9,156,415	7,234,088	(1,321,713)	1,394,350
Asia	5,025,462	2,940,605	1,663,149	1,068,000
Europe	2,181,673	2,971,694	429,417	1,677,991
<b>Total</b>	<b>19,747,259</b>	<b>16,639,451</b>	<b>(2,495,393)</b>	<b>5,408,691</b>
Less: Unallocated revenue less unallocated expenses			—	2,607,000
Profit from ordinary activities before income tax expense			(2,495,393)	2,801,691
Income tax expense			597,620	(830,314)
Net profit attributable to members of Compumedics Limited			(1,897,773)	1,971,377

Comments on the operations and the results of those operations are set out below:

### America

Consolidated US sales revenue of A\$9.2m was up 28% on the previous corresponding period, reflecting the acquisition of Neuroscan. The company's US sleep business stalled during the year as the relationship with the former distributor wound down, but recovered by year end as the new direct sales arrangements took effect.

### Europe

Sales revenue of A\$2.2m were 27% below the previous corresponding period. This reflects the underperformance of Compumedics' key distributor in this market. Following the successful implementation of direct selling arrangements in the US, the company took a similar course in Europe, redefining its relationship with the former distributor in May. Post balance date, Compumedics has established a relationship with Dräger Medical, giving the company a revitalised focus for the European market, and a strong technology partner.

### Asia Pacific

Sales revenue in the Asian region of \$5.0m increased 71% over the previous corresponding period. Growth in the Japanese market for sleep equipment as well as the establishment of new distributors in other parts of Asia Pacific account for much of this growth in sales. Compumedics' direct office in Singapore has further reinforced its efforts in this territory. China has also shown strong growth – in excess of 350%.

### Australia

Sales revenue in Australia of \$3.4m was comparable with the previous corresponding period, reflecting Compumedics' strong market position in both the sleep and clinical neurological markets. This provides an excellent platform from which new products can continue to be launched.

## DETAILS FROM EPS NOTE TO ACCOUNTS

Earnings per Share	Notes	2002 Cents	2001 Cents
Basic earnings per share	36	(1.4)	1.7
Diluted earnings per share	36	(1.4)	1.7
Basic earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	36	(0.8)	2.1
Diluted earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	36	(0.8)	2.1

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

	2002 \$
The Company acquired various assets and employees from Neurosoft Inc. for total consideration of	7,093,578
The fair value of identifiable net assets acquired were:	
Inventory	2,656,572
Fixed assets	256,554
Warranty Provision	(176,898)
	2,736,228
Intellectual Property acquired	4,357,350
<b>Total consideration:</b>	<b>7,093,578</b>

The payment plan for the acquisition of the business is:

April 23 2002	2,476,561
April 23 2003	2,211,215
April 23 2004	2,405,802
	7,093,578

Of the amounts payable on April 23 2004, US\$500,000 (AU\$884,486) is a payment conditional upon achievement of a defined business performance hurdle and US\$110,000 (AU\$194,587) is interest.

## 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

Further information on likely developments in the operations of Compumedics Limited, and the expected results of operations, has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to 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 15 years. Chairman for 15 years.	Member of Remuneration Committee	90,675,710	70,423
Koichiro Koike	Non-executive Director for 3 years. Executive Director for 2 years.	Non-executive Director, Corporate Development	—	660,000
John Dyson	Non-executive Director for 6 years.	Chairman of Audit Committee	70,000	166,000
Prof Graham Mitchell	Non-executive Director for 1 year, 7 months. Director of a number of other public and private entities (as stated).	Member of the Remuneration Committee	—	66,000
Alan Anderson	Non-executive Director for 1 year, 7 months. Attorney at Law based in the USA.	Chairman of the Remuneration Committee. Member of the Audit Committee	25,000	86,000

## 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 2002, and the numbers of meetings attended by each Director were:

	Full Meeting of Directors		Meetings of Committees			
	A	B	Audit		Remuneration	
	A	B	A	B	A	B
David Burton	12	12	—	—	1	1
Koichiro Koike	11	12	—	—	—	—
John Dyson	11	12	4	4	—	—
Prof Graham Mitchell	10	12	—	—	1	1
Alan Anderson	10	12	3	4	1	1

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

## DIRECTORS' AND EXECUTIVES' EMOLUMENTS

The Remuneration Committee, consisting of two Non-executive Directors and one Executive Director, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, and other senior executives.

Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice.

As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Compumedics Limited Employee Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and certain other senior executives are formalised in agreements.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Details of the nature and amount of each element of the emoluments of each Director of Compumedics Limited and each of the five officers of the Company and the consolidated entity receiving the highest emoluments are set out in the following tables.

**Non-executive Directors of Compumedics Limited**

<b>Name</b>	<b>Directors' Base Fee \$</b>	<b>Superannuation \$</b>	<b>Total \$</b>
John Dyson	36,667	–	36,667
Prof Graham Mitchell	33,982	3,518	37,500
Alan Anderson	30,000	–	30,000

**Executive Directors of Compumedics Limited**

<b>Name</b>	<b>Base Salary \$</b>	<b>Motor Vehicle \$</b>	<b>Superannuation \$</b>	<b>Total \$</b>
David Burton	265,780	24,581	–	290,361
Koichiro Koike	172,479	–	13,798	186,277

Executive Directors' base salary amounts are inclusive of superannuation entitlements unless otherwise stated.

**Other Executives of Compumedics Limited**

<b>Name</b>	<b>Base salary \$</b>	<b>Motor Vehicle \$</b>	<b>Bonus \$</b>	<b>Superannuation \$</b>	<b>Other Benefits \$</b>	<b>Total \$</b>
Dan Moore	225,667	10,614	13,915	–	–	250,196
Jeff Kuznia	189,870	10,614	7,439	–	–	207,922
David Lawson	172,493	–	20,000	15,399	–	207,893
Noel Booker	142,056	10,172	54,147	–	–	206,374
Warwick Freeman	146,480	17,166	–	11,716	–	175,332

## SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED OFFICERS

Options over unissued ordinary shares of Compumedics Limited granted during or since the end of the financial year to any of the Directors or the five most highly remunerated officers of the Company and consolidated entity as part of their remuneration were as follows:

Directors	Options Granted	Exercise Price (cents)	Expiry Date
Alan Anderson	20,000	55	6 March 2007
David Burton	70,423	71	31 October 2006

The options disclosed in the Directors' Report and Financial Statements have been valued by the Directors' as having a cost to the Company which is nil.

## Shares Under Option

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

	Number	Issue Price of Shares	Expiry Date
Compumedics Limited Employee Option Plan Options			
Options Issued at IPO	5,188,000	50cents	21 December 2005
New Issues	220,423	Various	Various
Total	5,408,423		

The options issued at IPO are exercisable based on the following parameters:

	Options Exercisable	Exercise Date	Share Price Hurdle
1st Tranche	20% of options held	21 Dec 2001	\$0.65
2nd Tranche	30% of options held	21 Dec 2002	\$0.85
3rd Tranche	50% of options held	21 Dec 2003	\$1.00

For options to be exercisable on the exercise date, the share price hurdle must have been achieved for any 30 continuous days prior to the exercise date.

The new options were issued during the year at a fixed price per share equivalent to the closing share price on the day immediately prior to issue. The expiry date is 5 years from the date of issue.



### INSURANCE OF OFFICERS

During the financial year, Compumedics Limited paid premiums to insure the Directors and Secretaries of the Company and its Australian-based controlled entities, and the General 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.

### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company which leave of the Court under section 237 of the Corporations Act 2001.

### AUDITOR

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

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



D Burton  
Director

Melbourne  
24 September 2002

# CORPORATE GOVERNANCE STATEMENT

Compumedics is committed to the highest standards of performance, accountability, continuous improvement and professionalism in the management of the Company on behalf of its shareholders.

## THE BOARD OF DIRECTORS

The Board of Directors is responsible to Compumedics shareholders for overall business performance. It approves Company goals and directions, strategic plans and performance targets. The Board ensures that the appropriate systems, policies and procedures are established to manage the risk, as well as maintain legal and regulatory compliance.

The Directors periodically discuss the appropriate skills and characteristics required by the Board to access whether the blending of skills, knowledge, age, experience and diversity is appropriate to the present and future needs of the Company. When a vacancy exists, the full Board decides the most suitable candidate for appointment but may obtain assistance from external consultants to identify suitable candidates.

### Performance and Assessment of the Board

To ensure effectiveness of the Board, Directors undertake an annual process of assessing the Board's performance. This includes individual performance appraisals of Directors by the Chairman.

### Director's Access to Independent Professional Advice

Any Director is entitled to seek independent professional advice at the Company's expense if such advice is essential to the proper performance of the Director's duties and subject to prior consultation with the 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 committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each of these committees has its own charter setting out its role and responsibilities and the manner in which the committee is to operate. All matters determined by committees are submitted to the full Board as recommendations for Board decision.

### Conflict of Interest

Entities connected with David Burton and Alan Anderson had business dealings with the consolidated entity during the year, as described in note 31 to the financial statements.

Except for the above, all Non-Executive Directors are regarded as independent. The company defines 'independent' as independent of the executive management and of business or other relationships which could otherwise detract from a Director's ability to act impartially in the Company's best interests.

## REMUNERATION COMMITTEE

The Remuneration Committee consists of the following Non-executive Directors:

- Alan Anderson (Chairman)
- Professor Graham Mitchell

and the following Executive Director:

- David Burton

The Remuneration Committee advises the Board on remuneration 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.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and independent expert advice. Executives are also eligible to participate in the Compumedics Limited Employee Option Plan.

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the Company's operations and achieving the Company's strategic objectives

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Further information on Directors' and Executives' remuneration is set out in the Directors' report and notes 26 and 27 to the financial statements.

## AUDIT COMMITTEE

The Audit Committee consists of the following Non-Executive Directors:

- John Dyson (Chairman)
- Alan Anderson

and the following Officer:

- David Lawson

The main responsibilities of the Audit Committee are to:

- Review and report to the Board on the annual report, the annual and half-year financial reports 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.
- Determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, including co-ordination with the external auditors
- Oversee the effective operation of the risk management framework, and
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary. The external auditors have 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.

## ETHICAL STANDARDS

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism. A copy of the Code is available to interested parties upon request.

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 both the law and Company policies.

This Code 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 with the Code.

The Company has a policy that Directors and senior executives of the Company do not trade in securities of the Company at times during the year when price sensitive information is readily available to them. Any transactions undertaken must be notified to the company secretary in advance.

## CONTINUOUS DISCLOSURE

Compumedics is developing a policy that restricts the time periods and circumstances in which all Directors and employees can buy and sell shares in the Company. This policy is intended to ensure all Directors and employees are aware and can respond positively to the restrictions imposed on such trading by the Corporations Law.

# STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2002

	Notes	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
Revenue from sale of goods and services	3	19,747,259	16,639,451	17,045,169	16,639,451
Cost of sales		(7,967,160)	(6,307,545)	(6,853,301)	(6,307,545)
Gross profit		11,780,099	10,331,906	10,191,868	10,331,906
Other revenues from operating activities	3	464,033	1,677,983	464,033	1,677,983
Other expenses from operating activities					
Administration		(3,973,556)	(2,684,456)	(3,650,460)	(2,307,621)
Sales & Marketing		(4,907,365)	(2,862,469)	(4,642,006)	(2,942,898)
Research & Development		(2,853,957)	(871,215)	(1,622,136)	(871,215)
Service		(2,159,197)	(2,232,271)	(2,441,733)	(2,232,271)
Logistics		(393,471)	(318,690)	(393,471)	(318,690)
Borrowing costs	4	(102,031)	(239,197)	(63,730)	(234,992)
Net foreign exchange loss	4	(349,948)	–	(349,948)	–
Profit / (Loss) from ordinary activities before income tax (expense) / benefit	4	(2,495,393)	2,801,591	(2,507,583)	3,102,202
Income tax (expense) / benefit	5	597,620	(830,214)	781,218	(823,367)
Profit / (Loss) from ordinary activities after income tax (expense) / benefit		(1,897,773)	1,971,377	(1,726,365)	2,278,835
Prior year adjustment		–	–	–	106,769
Net profit / (Loss) attributable to members of Compumedics Limited		(1,897,773)	1,971,377	(1,726,365)	2,385,604
Net exchange differences on translation of financial report of foreign controlled entity	23	(5,842)	–	–	–
Total changes in equity other than those resulting from transactions with owners as owners		(1,903,615)	1,971,377	(1,726,365)	2,385,604
		Cents	Cents		
Basic earnings per share	36	(1.4)	1.7		
Diluted earnings per share	36	(1.4)	1.7		
Basic earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	36	(0.8)	2.1		
Diluted earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	36	(0.8)	2.1		

The above statements of financial performance should be read in conjunction with the accompanying notes.

# STATEMENTS OF FINANCIAL POSITION

As at 30 June 2002

	Notes	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>CURRENT ASSETS</b>					
Cash assets	6,25	8,533,299	11,446,595	8,404,018	11,402,394
Receivables	7	7,982,578	8,992,581	9,874,350	9,058,447
Inventories	8	8,519,863	4,965,263	6,157,434	4,965,263
Other	9	187,077	695,841	167,404	695,841
<b>TOTAL CURRENT ASSETS</b>		<b>25,222,817</b>	<b>26,100,280</b>	<b>24,603,206</b>	<b>26,121,945</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	10	105,798	323,989	105,798	323,989
Other financial assets	11	—	—	7,190,127	7,083,056
Property, plant and equipment	12	957,946	822,324	585,057	822,324
Intangible assets	13	17,337,576	11,950,809	11,305,672	5,203,961
<b>NON-CURRENT ASSETS</b>		<b>18,401,320</b>	<b>13,097,122</b>	<b>19,186,654</b>	<b>13,433,330</b>
<b>TOTAL ASSETS</b>		<b>43,624,137</b>	<b>39,197,402</b>	<b>43,789,860</b>	<b>39,555,275</b>
<b>CURRENT LIABILITIES</b>					
Payables	14	3,469,768	3,729,998	3,075,912	3,580,388
Interest bearing liabilities	15,25	5,198,204	257,697	5,396,612	455,871
Current tax liabilities	16	230,307	55,242	—	—
Provisions	17	577,259	482,900	577,259	482,900
Other	18	328,081	283,770	328,081	283,770
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,803,619</b>	<b>4,809,607</b>	<b>9,377,864</b>	<b>4,802,929</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	19,25	3,212,184	1,120,201	3,212,184	1,120,201
Deferred tax liabilities	20	253,299	1,028,815	253,299	979,275
Provisions	21	129,000	75,487	129,000	75,351
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,594,483</b>	<b>2,224,503</b>	<b>3,594,483</b>	<b>2,174,827</b>
<b>TOTAL LIABILITIES</b>		<b>13,398,102</b>	<b>7,034,110</b>	<b>12,972,347</b>	<b>6,977,756</b>
<b>NET ASSETS</b>		<b>30,226,035</b>	<b>32,163,292</b>	<b>30,817,513</b>	<b>32,577,519</b>
<b>EQUITY</b>					
Contributed equity	22	29,147,006	29,180,648	29,147,006	29,180,648
Reserve	23	(5,842)	—	—	—
Retained profits	24	1,084,871	2,982,644	1,670,507	3,396,871
<b>TOTAL EQUITY</b>		<b>30,226,035</b>	<b>32,163,292</b>	<b>30,817,513</b>	<b>32,577,519</b>

The above statements of financial position should be read in conjunction with the accompanying notes.

# STATEMENTS OF CASH FLOWS

For the year ended 30 June 2002

	Notes	2002 \$	Consolidated 2001 \$	2002 \$	Parent Entity 2001 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Receipts from customers (inclusive of goods and services tax)		20,507,597	14,662,542	20,223,062	14,482,311
Payments to suppliers and employees (inclusive of goods and services tax)		(21,326,129)	(13,607,104)	(21,233,537)	(13,594,279)
		(818,532)	1,055,438	(1,010,475)	888,032
Interest and other items of a similar nature received		362,368	365,640	362,368	365,640
Other revenue		101,665	200,000	101,665	200,000
Interest and other costs of finance paid		(73,872)	(117,450)	(73,872)	(117,450)
Income taxes paid		(84,823)	(610,522)	(77,975)	(610,522)
Income tax refund		610,522	–	610,522	–
Net cash inflow (outflow) from operating activities	34	97,328	893,106	(87,767)	725,700
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for purchase of controlled entity, net of cash acquired	32	(2,476,561)	(1,131,574)	(2,981,370)	(1,000,000)
Payments for property, plant and equipment		(373,178)	(353,027)	(256,843)	(353,027)
Payments for goodwill acquired		(488,489)	–	–	–
Payments for intellectual property costs		(2,930,703)	(2,509,093)	(2,930,703)	(2,509,093)
Receipts of grants for intellectual property		896,188	273,110	896,188	273,110
Net cash inflow (outflow) from investing activities		(5,372,743)	(3,720,584)	(5,272,728)	(3,597,379)
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>					
Proceeds from issues of shares and other equity securities		–	17,240,527	–	17,240,527
Proceeds from borrowings		2,653,458	2,286,935	2,653,458	2,286,935
Repayments of finance leases		(167,702)	(137,240)	(167,702)	(137,240)
Share issue costs		(33,642)	(1,912,746)	(33,642)	(1,912,746)
Repayment of borrowings		(89,995)	(2,909,782)	(89,995)	(2,909,782)
Net cash inflow (outflow) from financing activities		2,362,119	14,567,694	2,362,119	14,567,694
NET INCREASE (DECREASE) IN CASH HELD		(2,913,296)	11,740,216	(2,998,376)	11,696,015
Cash at the beginning of the financial year		11,446,595	(293,621)	11,402,394	(293,621)
CASH AT THE END OF THE FINANCIAL YEAR	6	8,533,299	11,446,595	8,404,018	11,402,394

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

Non-cash financing and investing activities are shown in note 35.



# NOTES TO FINANCIAL STATEMENTS

For the year ended 30 June 2002

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

### (a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Compumedics Limited as at 30 June 2002 and the results of all controlled entities for the year then ended. Compumedics Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

### (b) Warranty

Warranty costs are expensed as incurred with a provision made for estimated liability on products still under warranty. The amount provided each year for warranty is calculated based on a percentage of sales.

### (c) Intangible assets and expenditure carried forward

#### (i) Research and development

Research and development expenditure are charged to operating profit before income tax as incurred or deferred when it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised. Given the commercial life cycle of the technology currently sold by the business and the expected life cycle of technology developed by the business, the weighted average amortisation period is nine years. The actual technological life of the product depends on the technology specific to each product and the anticipated period over which future commercial benefits will be derived.

Research and development expenditure incurred by Neuroscan is charged to operating profit in the period it is incurred.

#### (ii) Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight line basis over the periods which the benefits are expected to be realised the weighted average amortisation period is seven years.

#### (iii) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise. This is considered to be 10 years for the carrying amounts of goodwill relating to acquisitions to date.

#### (iv) Intellectual Property acquired

Intellectual property acquired on the acquisition of an entity or operation is capitalized at cost where it is expected beyond any reasonable doubt to be recoverable. Intellectual property is amortised from acquisition on a straight line basis over the period of the expected benefit, which is 10 years.

### (d) Revenue recognition

Revenue from sale of products is recognised upon despatch pursuant to a customer purchase order. Revenue from service contracts is initially deferred and is recognised on a straight line basis over the period of the contract.

#### **(e) Receivables**

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when doubt as to collection exists.

#### **(f) Inventories**

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

#### **(g) Depreciation 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 3 and 6 years.

Leases of plant and equipment under which the Company assumes substantially all the risks and benefits of ownership are classified as finance leases.

#### **(h) Employee entitlements**

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

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employee's services provided up to the reporting date. The provisions have been calculated at nominal amounts based on current wage and salary rates and include related on-costs.

##### *(ii) Long service leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

##### *(iii) Share Options*

The company has granted options to certain employees under an Executive Share Option Plan. Further information is set out in the Director's Report to the financial report. Other than the costs incurred in administering the scheme which are expensed as incurred, the Directors have valued these options at a cost to the Company which is nil.

#### **(i) Cash**

For purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of outstanding bank overdrafts.

#### **(j) Income tax**

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 30 June 2002

#### **(k) Foreign currency translation**

##### *(i) Transactions*

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

##### *(ii) Specific commitments*

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred up to the date of the purchase or sale and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the statement of financial performance over the lives of the hedges.

When anticipated purchase or sale transactions have been hedged, actual purchases or sales which occur during the hedged period are accounted for as having been hedged until the amounts of those transactions are fully allocated against the hedged amounts.

##### *(iii) Foreign controlled entity*

Where a foreign controlled entity is self-sustaining (Neuroscan Ltd.), its assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while its revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

Where the controlled entities are integrated (Compumedics USA Inc and Compumedics Singapore Pte Ltd.) with the activities of the Australian entity, the assets, liabilities and equity of these operations are consolidated into the Australian entity using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenue and expenses, are translated using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expense by the entity.

#### **(l) Directors' and Executive Remuneration**

Directors and Executives remuneration disclosed in the financial statements excludes monetary amounts for options granted on the basis that the granting of options does not involve a cost to the Company. This basis of calculation differs from the remuneration disclosed in the Directors' Report due to the requirements of ASIC Practice Note 68 to value options granted on the basis of benefits received by Directors and Executives.

#### **(m) Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date have been fully amortised.

#### **(n) Borrowing costs**

Borrowing costs are recognised 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.

#### **(o) Earnings per share**

##### *(i) Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

##### *(ii) Diluted earnings per share*

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

## NOTE 2. SEGMENT INFORMATION

### Primary Reporting - Business Segments

2002	Compumedics	Neuroscan	Intersegment Eliminations	Consolidated Amount
	\$	\$	\$	\$
Sales to External Customers	17,045,169	2,702,090	–	19,747,259
Intersegment Sales	–	132,880	(132,880)	–
Total Sales Revenue	17,045,169	2,834,970	(132,880)	19,747,259
Other revenue	101,665	–	–	101,665
Total Segment Revenue	17,146,834	2,834,970	(132,880)	19,848,924
Interest revenue				362,368
Total Revenue				20,211,292
Segment Result	(3,238,098)	476,040	6,328	(2,755,730)
Interest revenue less borrowing costs				260,337
Tax Expense				597,620
Net Profit after Tax				(1,897,773)
Segment Assets	42,756,868	4,769,950	(3,902,681)	43,624,137
Unallocated Assets				–
Tax Asset				–
Total Assets				43,624,137
Segment Liabilities	12,520,921	4,302,584	(3,909,009)	12,914,496
Unallocated Liabilities				–
Tax Liability				483,606
Total Liabilities				13,398,102
Net Assets				30,226,035
Acquisition of property, plant and equipment	366,092	263,640	–	629,732
Acquisition of Intangibles and other non-current Segment Assets	6,928,540	–	–	6,928,540
Depreciation and amortisation Expenses	1,964,437	–	–	1,964,437
Other non cash expenses	1,139,919	–	–	1,139,919

On 23rd April, 2002 Compumedics Limited acquired certain assets from Neurosoft Inc. known as Neuroscan. As a result, Compumedics has altered its primary segment reporting to show Compumedics and Neuroscan separately. The financial numbers for Neuroscan reflect only the two months of trading between acquisition date (23 April 2002) and 30th June 2002.

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

**NOTE 2. SEGMENT INFORMATION CONTINUED**

**Secondary Reporting - Geographical Segments**

<b>2002</b>	<b>Australia</b>	<b>USA</b>	<b>Europe</b>	<b>Asia</b>	<b>Intersegment Eliminations</b>	<b>Consolidated Amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales to External Customers	3,383,709	9,156,415	2,181,673	5,025,462	–	19,747,259
Intersegment Sales	–	132,880	–	–	(132,880)	–
Total Sales Revenue	3,383,709	9,289,295	2,181,673	5,025,462	(132,880)	19,747,259
Other revenue	101,665	–	–	–	–	101,665
Total Segment Revenue	3,485,374	9,289,295	2,181,673	5,025,462	(132,880)	19,848,924
Interest revenue						362, 368
Total Revenue						20,211,292
Segment Assets	37,425,164	8,255,867	556,322	1,779,682	(4,392,898)	43,624,137
Unallocated Assets						–
Tax Asset						–
Total Assets						43,624,137
Acquisition of PPE	240,981	279,502	–	109,249	–	629,732
Acquisition of Intangibles and Other Non-current Segment Assets	6,928,540	–	–	–	–	6,928,540

**Secondary Reporting - Geographical Segments**

<b>2001</b>	<b>Australia</b>	<b>USA</b>	<b>Europe</b>	<b>Asia</b>	<b>Intersegment Eliminations</b>	<b>Consolidated Amount</b>
Sales to External Customers	3,493,064	7,234,088	2,940,605	2,971,694	–	16,639,451
Other revenue	1,677,983	–	–	–	–	1,677,983
Total Segment Revenue	5,171,047	7,234,088	2,940,605	2,971,694	–	18,317,434
Segment Assets	31,178,504	6,410,331	957,848	650,719	–	39,197,402
Unallocated Assets						–
Tax Asset						–
Total Assets						39,197,402
Acquisition of PPE	353,027	–	–	–	–	353,027
Acquisition of Intangibles and Other Non-current Segment Assets	9,410,000	–	–	–	–	9,410,000

**Notes to and forming part of the segment information**

**(a) Notes to the segment information**

The consolidated entity operates in two industry segments, that being research, development, manufacture and distribution of neuro diagnostics equipment (Neuroscan) and sleep diagnostics equipment (Compumedics).

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

### (b) Geographical segments

The Company operates from Australia, with sales and technical service activities carried out in the USA from its office in Minneapolis, Minnesota and El Paso, Texas.

Geographical information for Asia and Europe primarily represents export activities to those territories from Australia.

The Asian operations are carried on in, Japan, Singapore, Malaysia, China, South Korea, Taiwan and Hong Kong.

The European operations are carried on in Germany, France, Italy, Spain, Belgium and Great Britain.

	2002	Consolidated 2001	2002	Parent entity 2001
	\$	\$	\$	\$

## NOTE 3. REVENUE

### REVENUE FROM OPERATING ACTIVITIES

Sale of goods	18,944,665	15,994,498	16,242,575	15,994,498
Services	802,594	644,953	802,594	644,953
	19,747,259	16,639,451	17,045,169	16,639,451

### REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES

Interest	362,368	365,640	362,368	365,640
Government grants	75,463	200,000	75,463	200,000
Net foreign exchange gain	—	973,648	—	973,648
Other	26,202	138,695	26,202	138,695
	464,033	1,677,983	464,033	1,677,983
Revenue from ordinary activities	20,211,292	18,317,434	17,509,202	18,317,434

## NOTE 4. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:

### NET GAINS

Net foreign exchange gain	—	973,648	—	973,648
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### EXPENSES

Depreciation – plant and equipment	422,664	352,017	422,664	352,017
Amortisation – intellectual property, patents, trademarks and goodwill	1,541,773	830,621	687,892	412,159
Write off of leasehold improvements	71,446	—	71,446	—
Provision for inventory obsolescence	739,416	476,042	739,416	476,042
Provision for doubtful trade debtors	393,688	258,547	466,787	185,448
Borrowing costs	102,031	239,197	63,730	234,992
Employee entitlement provisions	161,193	170,600	161,193	170,600
Service warranty provisions	6,815	117,000	6,815	117,000
Operating leases – minimum lease payments	260,498	170,550	205,573	127,000
Net foreign exchange loss	349,948	—	349,948	—



NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 5. INCOME TAX EXPENSE</b>				
The income tax expenses for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit from ordinary activities before income tax expense / (benefit)	(2,495,393)	2,801,591	(2,507,583)	3,102,202
Income tax calculated @ 30% (2001 – 34%)	(748,618)	952,541	(752,275)	1,054,748
Tax effect of permanent differences				
25 % Non-grant R & D loading / allowance	( 58,509)	(161,894)	(58,509)	(161,894)
Non-deductible entertainment expenses	4,010	6,319	4,010	6,319
Other Non-deductible permanent differences	(19,111)	(34,803)	–	–
Overseas profits taxed at higher rates	12,663	–	–	–
Non-deductible amortisation	215,212	142,279	–	–
Income tax adjusted for permanent differences	(594,353)	904,442	(806,774)	899,173
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in company tax rate to 34%/30%	–	(157,084)	–	(157,084)
Under (over) provision in previous year	(3,267)	82,856	25,556	81,278
Aggregate income tax expense / (benefit)	(597,620)	830,214	(781,218)	823,367
Aggregate income tax expense / (benefit) comprises:				
Current taxation provision	230,307	55,242	–	–
Deferred income tax provision	(824,660)	692,116	(806,774 )	742,089
Under (over) provision in prior year	(3,267)	82,856	25,556	81,278
	(597,620)	830,214	(781,218)	823,367

	2002	Consolidated	2002	Parent entity
	\$	2001	\$	2001
		\$		\$

#### NOTE 6. CURRENT ASSETS – CASH ASSETS

Cash at Bank and on deposit	8,533,299	11,446,595	8,404,018	11,402,394
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The above figures are as noted in the statements of cash flows.

#### NOTE 7. CURRENT ASSETS – RECEIVABLES

Trade debtors	8,537,791	8,742,412	6,253,116	8,742,412
Less: Provision for doubtful debts	(781,860)	(388,172)	(781,860)	(315,073)
	7,755,931	8,354,240	5,471,256	8,427,339
Other debtors	42,804	232,842	42,804	225,609
Amounts owing from controlled entities	–	–	4,176,447	–
Receivable from Director related parties	183,843	405,499	183,843	405,499
TOTAL	7,982,578	8,992,581	9,874,350	9,058,447

#### NOTE 8. CURRENT ASSETS – INVENTORIES

Raw materials – at cost	3,333,860	2,626,613	3,333,860	2,626,613
Work in progress – at cost	414,542	1,049,896	414,542	1,049,896
Finished goods – at cost	6,200,919	1,978,796	3,838,490	1,978,796
Less: Provision for obsolescence	(1,429,458)	(690,042)	(1,429,458)	(690,042)
TOTAL	8,519,863	4,965,263	6,157,434	4,965,263

#### NOTE 9. CURRENT ASSETS – OTHER

Prepayments	109,102	85,319	89,429	85,319
Income tax refund receivable	77,975	610,522	77,975	610,522
TOTAL	187,077	695,841	167,440	695,841

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 10. NON-CURRENT ASSETS – RECEIVABLES</b>				
Trade debtors	105,798	323,989	105,798	323,989
<b>NOTE 11. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS</b>				
Shares in controlled entities – at cost (note 32)	–	–	7,190,127	7,083,056
<b>NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT &amp; EQUIPMENT</b>				
<b>PLANT &amp; EQUIPMENT</b>				
Plant & Equipment At cost	544,208	395,159	428,597	395,159
Less: Accumulated depreciation	(289,790)	(219,900)	(289,790)	(219,900)
	254,418	175,259	138,807	175,259
Plant & Equipment under lease	212,052	180,300	212,052	180,300
Less: Accumulated depreciation	(157,234)	(78,415)	(157,234)	(78,415)
	54,818	101,885	54,818	101,885
<b>MOTOR VEHICLES</b>				
At cost	116,277	45,436	45,436	45,436
Less: Accumulated depreciation	(50,280)	(43,196)	(50,280)	(43,196)
	65,997	2,240	(4,844)	2,240
<b>OFFICE EQUIPMENT</b>				
Office Equipment At cost	1,094,629	809,881	908,192	809,881
Less: Accumulated depreciation	(594,061)	(458,514)	(594,061)	(458,514)
	500,568	351,367	314,131	351,367
Office Equipment under lease	328,000	328,000	328,000	328,000
Less: Accumulated depreciation	(245,855)	(136,427)	(245,855)	(136,427)
	82,145	191,573	82,145	191,573
<b>TOTAL</b>	<b>957,946</b>	<b>822,324</b>	<b>585,057</b>	<b>822,324</b>

## NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT (CONTINUED)

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

Consolidated	Plant and Equipment At Cost \$	Plant and Equipment Leased \$	Motor Vehicle \$	Office Equipment At Cost \$	Office Equipment Leased \$	Total \$
Carrying amount at 1 July 2001	175,259	101,885	2,240	351,367	191,573	822,324
Additions	33,438	31,752	70,841	237,147	–	373,178
Additions on Acquisition	115,611	–	–	140,943	–	256,554
Write off of leasehold improvements	–	–	–	(71,446)	–	(71,446)
Depreciation/amortisation expense (Note 4(a))	(69,890)	(78,819)	(7,084)	(157,443)	(109,428)	(422,664)
Carrying amount at 30 June 2002	254,418	54,818	65,997	500,568	82,145	957,946

Parent	Plant and Equipment At Cost \$	Plant and Equipment Leased \$	Motor Vehicle \$	Office Equipment At Cost \$	Office Equipment Leased \$	Total \$
Carrying amount at 1 July 2001	175,259	101,885	2,240	351,367	191,573	822,324
Additions	33,438	31,752	–	191,653	–	256,843
Write off of leasehold improvements	–	–	–	(71,446)	–	(71,446)
Depreciation/amortisation expense (Note 4(a))	(69,890)	(78,819)	(7,084)	(157,443)	(109,428)	(422,664)
Carrying amount at 30 June 2002	138,807	54,818	(4,844)	314,131	82,145	585,057

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 13. NON-CURRENT ASSETS – INTANGIBLE ASSETS</b>				
Deferred development expenditure at cost*	10,359,795	8,635,302	10,319,976	8,643,671
Less: Accumulated amortisation	(4,298,889)	(3,778,968)	(4,292,738)	(3,778,968)
	6,060,906	4,856,334	6,027,238	4,864,703
Patents, trademarks & licences at cost	843,207	484,998	843,207	484,998
Less: Accumulated amortisation	(240,611)	(145,740)	(240,611)	(145,740)
	602,596	339,258	602,596	339,258
Neuroscan intellectual property on acquisition at cost	–	–	4,357,350	–
Less: Accumulated amortisation	–	–	(72,622)	–
	–	–	4,284,728	–
Neuroscan acquisition costs	–	–	397,738	–
Less: Accumulated amortisation	–	–	(6,628)	–
	–	–	391,110	–
Intellectual property on acquisition at cost	11,531,034	7,173,684	–	–
Less: Accumulated amortisation	(1,329,745)	(418,467)	–	–
	10,201,289	6,755,217	–	–
Goodwill on acquisition at cost	488,488	–	–	–
Less: Accumulated amortisation	(15,703)	–	–	–
	472,785	–	–	–
<b>TOTAL</b>	<b>17,337,576</b>	<b>11,950,809</b>	<b>11,305,672</b>	<b>5,203,961</b>

\* During the year, grants received of \$896,188 (2001 \$273,110) are included.

**NOTE 14. CURRENT LIABILITIES – PAYABLES**

Trade creditors	2,154,693	2,647,211	1,761,775	2,647,211
Other payables	1,165,465	933,177	1,165,465	933,177
Payable to controlled entities	–	–	148,672	–
Payable to Director related parties	149,610	149,610	–	–
<b>TOTAL</b>	<b>3,469,768</b>	<b>3,729,998</b>	<b>3,075,912</b>	<b>3,580,388</b>

**NOTE 15. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES**

Concessional Loan (unsecured)	169,680	89,995	169,680	89,995
Bank Loan (secured)	2,653,458	–	2,653,458	–
Neuroscan acquisition cost payable to the Marmon group (unsecured)	2,211,215	–	2,211,215	–
Lease liability (note 29) (secured)	163,851	167,702	163,851	167,702
Payable to controlled entities (unsecured)	–	–	198,408	198,174
<b>TOTAL</b>	<b>5,198,204</b>	<b>257,697</b>	<b>5,396,612</b>	<b>455,871</b>

The bank loan is secured by a floating charge against the assets of the business.

	2002	Consolidated 2001	2002	Parent entity 2001
	\$	\$	\$	\$

**NOTE 16. CURRENT LIABILITIES – CURRENT TAX LIABILITIES**

Provision for taxation	230,307	55,242	–	–
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**NOTE 17. CURRENT LIABILITIES – PROVISIONS**

Provisions – annual leave	404,444	316,900	404,444	316,900
Provisions – warranties	172,815	166,000	172,815	166,000
<b>TOTAL</b>	<b>577,259</b>	<b>482,900</b>	<b>577,259</b>	<b>482,900</b>

**NOTE 18. CURRENT LIABILITIES – OTHER**

Revenue in Advance	328,081	283,770	328,081	283,770
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**NOTE 19. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES**

Concessional Loan (unsecured)	795,320	945,288	795,320	945,288
Lease liability (note 29) (secured)	11,062	174,913	11,062	174,913
Neuroscan acquisition cost payable to the Marmon group (unsecured)	2,405,802	–	2,405,802	–
<b>Total</b>	<b>3,212,184</b>	<b>1,120,201</b>	<b>3,212,184</b>	<b>1,120,201</b>

**NOTE 20. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES**

Provision for deferred income tax	253,299	1,028,815	253,299	979,275
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The consolidated and parent entity provision for deferred income tax has been reduced by \$670,586 (2001 \$198,856) in respect of future income tax benefits attributable to tax losses.

**NOTE 21. NON-CURRENT LIABILITIES – PROVISIONS**

Provisions – long service leave	129,000	75,487	129,000	75,351
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NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 shares	Parent entity 2001 shares	2002 \$	Parent entity 2001 \$
<b>NOTE 22. CONTRIBUTED EQUITY</b>				
Issued and paid up capital	140,000,000	140,000,000	29,147,006	29,180,648

**(a) Movements in ordinary share capital**

Date	Details	Notes	Number of shares	Issue price \$	\$
01-07-2000	Opening Balance		2,230,681		5,865,009
29-11-2000	Issue to D&DJ Holdings Pty Ltd.	(b)	116,788	18.84	2,200,000
21-12-2000	Conversion of Preference Shares	(c)	306,805	6.21	1,904,805
21-12-2000	Share Split	(d)	92,775,119	—	—
21-12-2000	Conversion of Options	(e)	14,570,607	0.42	6,123,580
21-12-2000	Issue of Shares under the prospectus	(f)	30,000,000	0.50	15,000,000
	Less: Transaction costs arising on share issues	(g)			(1,912,746)
30-06-2001	Balance		140,000,000		29,180,648
	Less: Transaction costs arising on prior year share issues	(g)			(33,642)
30-06-2002	Balance		140,000,000		29,147,006

**(b) Ordinary shares**

Issue of shares and settlement of bank borrowings of \$2.2 million. The Company had banking facilities of \$2.2 million, of which \$1.141 million was drawn at 30 June 2000. On 29 November 2000 D & DJ Holdings Pty Ltd., a Company beneficially owned by David Burton, subscribed for 116,788 ordinary shares in the Company for \$2.2 million cash, which was applied to repay bank borrowings at that date.

**(c) Conversion of Preference Shares**

Conversion of 306,805 convertible preference shares outstanding at 30 June 2000 to 306,805 fully paid ordinary shares. This conversion occurred immediately prior to quotation of the ordinary shares of Compumedics Limited on the ASX on 21 December 2000.

**(d) Share Split**

A share split which increased the number of issued ordinary shares by 92,775,119. This share split occurred immediately prior to the quotation of the ordinary shares of Compumedics Limited on the ASX on 21 December 2000.

**(e) Conversion of Options**

On 29 November 2000, Compumedics Limited acquired 100% of the share capital of Compumedics Telemed Pty Ltd., Compumedics Neuro Science Pty Ltd. and Compumedics Cardiology Pty Ltd., and intellectual property owned by D & DJ Holdings Pty Ltd. for consideration of \$1 million and options to acquire 405,267 (14,570,607 after share split) ordinary shares in the Company. The 1,000,000 consideration was paid for from the proceeds of the offer. The Directors have estimated the fair value of the options to be \$6,083,323 at the date of the acquisition transaction. A pre share split price of 10 cents per share was received in cash (\$40,257).

**(f) Issues of Shares under the prospectus**

The offer of 30,000,000 ordinary shares at a price of \$0.50 was fully subscribed.

**(g) Share issue costs**

Costs associated with the initial public offer of ordinary shares in Compumedics Limited.

	2002	Consolidated	2002	Parent entity
	\$	2001	\$	2001
		\$		\$

#### NOTE 23. RESERVE

Foreign translation reserve	(5,842)	—	—	—
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#### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1 (k)(iii).

#### NOTE 24. RETAINED PROFITS

Retained profits at the beginning of the financial year	2,982,644	1,011,267	3,396,871	1,011,267
Prior year adjustment	—	—	—	106,769
Net profit (loss) attributable to members of Compumedics Limited	(1,897,773)	1,971,377	(1,726,365)	2,278,835
TOTAL	1,084,871	2,982,644	1,670,506	3,396,871

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 30 June 2002

#### NOTE 25. 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 the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

	Notes	Weighted average interest rate %	1 year or less \$	Over 1 to 5 years \$	Total \$
<b>2002</b>					
<b>FINANCIAL ASSETS</b>					
Cash at bank	6	2.00	1,230,881	—	1,230,881
On Term Deposit	6	4.75	7,302,418	—	7,302,418
<b>TOTAL</b>			<b>8,533,299</b>	<b>—</b>	<b>8,533,299</b>
<b>FINANCIAL LIABILITIES</b>					
Concessional loans	15,19	3.2	169,680	795,320	965,000
Lease liabilities	15,19	9.8	163,851	11,062	174,913
Bank loan (secured)	15	4.5	2,653,458	—	2,653,458
Payable to the Marmon group	15,19	4.0	2,211,215	2,405,802	4,617,017
<b>TOTAL</b>			<b>5,198,204</b>	<b>3,212,184</b>	<b>8,410,388</b>
Net interest bearing financial assets (liabilities)			3,335,095	(3,212,184)	122,911
<b>2001</b>					
	Notes	%	\$	\$	\$
<b>FINANCIAL ASSETS</b>					
Cash at bank	6	2.00	2,173,670	—	2,173,670
On Term Deposit	6	5.00	9,272,925	—	9,272,925
<b>TOTAL</b>			<b>11,446,595</b>	<b>—</b>	<b>11,446,595</b>
<b>FINANCIAL LIABILITIES</b>					
Concessional loans	15,19	3.20	89,995	945,288	1,035,283
Lease liabilities	15,19	9.80	167,702	174,913	342,615
<b>TOTAL</b>			<b>257,697</b>	<b>1,120,201</b>	<b>1,377,898</b>
Net interest bearing financial assets (liabilities)			11,188,898	(1,120,201)	10,068,697

All other financial assets and liabilities are non-interest bearing and mature in periods of 1 year or less with the exception of non current receivables which mature in one to five years.

##### (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) Off-balance sheet derivative instruments

Compumedics Limited and certain of its controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

## NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)

### Forward exchange contracts

The USA operations sell products into the USA market in US dollars.

Sell US dollars	Buy Australian Dollars		Average Exchange Rate	
	2002	2001	2002	2001
	\$	\$	\$/US\$	\$/US\$
	—	1,181,104	—	0.5080

At reporting date 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 provisions for doubtful debts.

## NOTE 26. REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, to Directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities

	Directors of entities in the consolidated entity		Director of parent entity	
	2002	2001	2002	2001
	\$	\$	\$	\$
	580,805	478,814	580,805	478,814

Options are granted to executive Directors under the Compumedics Limited Employee Option Plan, details of which are set out in note 30. A summary of the numbers of options granted to and exercised by directors is set out below.

	Granted	Exercised	Outstanding
2001	958,000	—	958,000
2002	90,423	—	1,048,423

The numbers of parent entity Directors whose total income from the parent entity or related parties was within the specified bands are as follows:

\$	2002	2001
10,000 - 19,999	—	3
30,000 - 39,999	3	—
160,000 - 169,999	—	1
180,000 - 189,999	1	—
250,000 - 259,999	—	1
290,000 - 299,999	1	—

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

**NOTE 27. REMUNERATION OF EXECUTIVES**

Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian based executive officers (including Directors) whose remuneration was at least \$100,000:

	<b>Executive Officers of the consolidated entity</b>		<b>Executive Officers of parent entity</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Executive officers of the parent entity	993,060	899,467	993,060	899,467

Options are granted to executive officers under the Compumedics Limited Employee Option Plan, details of which are set out in note 30. A summary of the numbers of options granted to and exercised by Australian based executive officers (with income of at least \$100,000), excluding Directors, is set out below.

	<b>Granted</b>	<b>Exercised</b>	<b>Outstanding</b>
<b>2001</b>	1,540,000	—	1,540,000
<b>2002</b>	90,000	—	1,410,000

The numbers of Australian based executive officers (including Directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

	<b>Executive Officers of the consolidated entity</b>		<b>Executive Officers of parent entity</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>\$</b>				
130,000 - 139,999	1	—	1	—
140,000 - 149,999	—	1	—	1
150,000 - 159,999	—	1	—	1
160,000 - 169,999	—	1	—	1
170,000 - 179,999	1	1	1	1
180,000 - 189,999	1	—	1	—
200,000 - 209,999	1	—	1	—
250,000 - 259,999	—	1	—	1
290,000 - 299,999	1	—	1	—

	2002	Consolidated	2002	Parent entity
	\$	2001	\$	2001
		\$		\$

#### NOTE 28. REMUNERATION OF AUDITORS

During the year the auditor of the parent entity and its related practices earned the following remuneration

##### PricewaterhouseCoopers – Australian firm

Audit or review of financial reports of the entity or any entity in the consolidated entity	141,690	123,250	141,690	103,250
IPO Services	–	256,091	–	256,091
Taxation	92,291	40,158	92,291	40,158
Other advisory services	23,210	81,542	23,210	81,542
<b>TOTAL</b>	<b>257,191</b>	<b>501,041</b>	<b>257,191</b>	<b>481,041</b>

#### NOTE 29. COMMITMENTS FOR EXPENDITURE

##### OPERATING LEASES

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	427,489	247,404	391,083	202,008
Later than one year but not later than 5 years	1,515,774	141,702	1,420,250	73,597
Commitments not recognised in the financial statements	1,943,263	389,106	1,811,333	275,605

##### FINANCE LEASES

Commitments in relation to finance leases are payable as follows:

Within one year	173,905	194,578	173,905	194,578
Later than one year but not later than 5 years	13,290	187,195	13,290	187,195
Minimum lease payments	187,195	381,773	187,195	381,773
Less: Future finance charges	(12,282)	(39,158)	(12,282)	(39,158)
<b>Total</b>	<b>174,913</b>	<b>342,615</b>	<b>174,913</b>	<b>342,615</b>
Representing lease liabilities:				
Current (note 15)	163,851	167,702	163,851	167,702
Non-current (note 19)	11,062	174,913	11,062	174,913
<b>TOTAL</b>	<b>174,913</b>	<b>342,615</b>	<b>174,913</b>	<b>342,615</b>



NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 30. EMPLOYEE ENTITLEMENTS</b>				
Provision for employee entitlements				
Current (note 17)	404,444	316,900	404,444	316,900
Non-current (note 21)	129,000	75,351	129,000	75,351
Aggregate employee entitlement liability	533,444	392,251	533,444	392,251
<b>Employee numbers</b>				
		Number		Number
Average number of employees during the financial year	75	72	47	61

**Compumedics Limited Employee Option Plan**

The establishment of the Compumedics Limited Employee Option Plan was approved at a Board meeting held on the 29th November 2000. The Board has absolute discretion to determine whether executives, other employees or other persons the Board determines are eligible to participate in the employee option plan, including without limitation, non executive Directors.

A total of 5,408,423 options are on hand as at 30 June 2002. 5,188,000 relate to options issued on 21 December 2000. A total of 220,423 options were issued during the year at a fixed price per share equivalent to the closing share price on the day immediately prior to issue. No options have been exercised at 30 June 2002.

The market price per ordinary share at 30 June 2002 was 31.5 cents per share. Options are granted for no consideration. The amount received on exercise of shares is recognised as issued capital at the date of issue of the share.

For those options issued at 21 December 2000 each option is convertible into one share at each anniversary date after the achievement of specific share price hurdles, at a fixed price of 50 cents per share. At 30 June 2002 no options had been converted.

## NOTE 31. RELATED PARTIES

### Directors

The names of persons who were Directors of Compumedics Limited at any time during the financial year are as follows: David Burton; Koichiro Koike; John Dyson; Prof Graham Mitchell; Alan Anderson.

### Remuneration and retirement benefits

Information on remuneration and retirement benefits of Directors is disclosed in note 26.

### Loans to Directors and Director-related entities

Loans to Directors of entities in the consolidated entity and their Director-related entities disclosed in note 7 comprise:

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
Trade Debtors	183,843	405,499	183,843	405,499

Aggregate numbers of shares and share options of Compumedics Limited held directly, indirectly or beneficially by Directors of the company or the consolidated entity or their Director-related entities at balance date:

	2002 Number	2001 Number
Ordinary shares	97,770,710	97,770,710
Options over ordinary shares	1,048,423	958,000

### Other transactions with Directors and Director-related entities

A Director, David Burton, is a Director and shareholder of D & D.J Holdings Pty Ltd. Compumedics Limited maintained a contract until January 2002 with D & D.J Holdings Pty Ltd. for the rental of business premises. The contract was based on normal commercial terms and conditions. In January 2002 the building passed to new owners who are not related to the business. 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 are to be reimbursed in full.

A Director, Alan Anderson, was a partner in the American legal firm of Larkin, Hoffman, Daly & Lindgren, Ltd. and has since moved to Fulbright & Jaworski L.L.P. Both firms are based in the US and have provided legal services to Compumedics Limited and certain of its controlled entities during the year on normal commercial terms and conditions.

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 31. RELATED PARTIES (CONTINUED)</b>				
Aggregate amounts of each of the above types of other transactions with Directors and their Director-related entities:				
Rent paid or payable	126,667	127,506	126,667	127,506
Legal fees paid or payable	511,295	241,756	511,295	241,756
Aggregate amounts payable to Directors and their Director-related entities at balance date:				
Payable to Director related parties	149,610	149,610	—	—
Aggregate amounts receivable from Directors and their Director related entities at balance date:				
Receivable from Director related parties	183,843	405,499	183,843	405,499

**Wholly-owned group**

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, Neuroscan Ltd., and Compumedics Singapore Pte Ltd. Ownership interests in these controlled entities are set out in note 32.

Transactions between Compumedics Limited and other entities in the wholly owned group during the years ended 30 June 2002 and 2001 consisted of:

- (a) Loans advanced by Compumedics Limited
- (b) Loans repaid to Compumedics Limited
- (c) Sales between group entities are on a cost plus 5% basis.
- (d) Commissions were charged by Compumedics USA Inc and Compumedics Singapore Pte Ltd. at a mark up of 5% of running costs of those entities.

Transactions arising on the acquisition of Neuroscan Ltd. are disclosed in note 32.

## NOTE 32. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	Country of incorporation	Class of shares	Equity holding		Cost of parent entity's investment	
			2002 %	2001 %	2002 \$	2001 \$
Compumedics Telemed Pty Ltd.	Australia	Ordinary	100	100	7,083,052	7,083,052
Compumedics Neuro Science Pty Ltd.	Australia	Ordinary	100	100	2	2
Compumedics Cardiology Pty Ltd.	Australia	Ordinary	100	100	2	2
Compumedics USA Inc.	USA	Ordinary	100	100	—	—
Compumedics Singapore Pte Ltd.	Singapore	Ordinary	100	—	106,872	—
Neuroscan Ltd.	USA	Ordinary	100	—	199	—
					7,190,127	7,083,056

### Acquisition of controlled entities

On 12 July 2001 Compumedics acquired 100% of the share capital of Compumedics Singapore Pte Ltd. for the consideration of SGD\$100,000. Compumedics Singapore Pte Ltd. then acquired the assets of REM Technologies for the consideration of \$100,000 on completion and up to \$100,000 payable 12 months after completion based on performance targets. These targets have been met and the contingent payment made. Assets acquired on acquisition were tangible fixed assets with a valuation of \$109,250. Goodwill on acquisition has been recognised in the consolidated entity totalling \$90,750. The goodwill is to be amortised over the period during which the benefits are expected to arise, being 10 years.

On 23rd April 2002, Compumedics acquired the trade and assets of Neuroscan Ltd.

Details of the acquisition are as follows:

	2002 \$
<b>Acquisition of Neuroscan – 2002</b>	
The fair value of identifiable net assets acquired were:	
Inventory	2,656,572
Fixed assets	256,554
Warranty Provision	(176,898)
	2,736,228
Intellectual Property acquired	4,357,350
Total consideration:	7,093,578
Less Non cash consideration	—
Cash Consideration	7,093,578
The cash consideration is represented by:	
Amount paid to the Marmon group on 23 April 2002	2,476,561
Amount payable to the Marmon group on 23 April 2003	2,211,215
Amount payable to the Marmon group on 23 April 2004	2,405,802
TOTAL	7,093,578

NOTES TO FINANCIAL STATEMENTS  
For the year ended 30 June 2002

**NOTE 32. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)**

	<b>2001</b> \$
<i>Acquisition of Telemed – 2001</i>	
Fair value of identifiable net assets of controlled entity acquired	
Intellectual Property	7,173,684
Trade Debtors	270,999
Bank Overdraft	(131,574)
Trade creditors & deferred tax liability	(185,052)
Provision for long service leave	(45,001)
	<hr/> 7,083,056 <hr/>
Less Non cash option consideration	(6,083,056)
Cash Consideration	<hr/> 1,000,000 <hr/>

	<b>2002</b> \$	<b>Consolidated</b> <b>2001</b> \$	<b>2002</b> \$	<b>Parent entity</b> <b>2001</b> \$
<hr/>				
Outflow of cash to acquire controlled entity, net of cash acquired.				
Cash Consideration	7,093,578	1,000,000	7,093,578	1,000,000
Less Balances acquired				
Bank Overdraft	–	(131,574)	–	–
	<hr/> 7,093,578	<hr/> 1,131,574	<hr/> 7,093,578	<hr/> 1,000,000 <hr/>

**NOTE 33. EVENTS OCCURRING AFTER REPORTING DATE**

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

	2002 \$	Consolidated 2001 \$	2002 \$	Parent entity 2001 \$
<b>NOTE 34. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>				
Profit / Loss from ordinary activities after income tax	(1,897,773)	1,971,377	(1,726,365)	2,278,835
Depreciation & Amortisation	1,964,437	1,182,638	1,110,556	764,176
Write off of leasehold improvements	71,446	—	71,446	—
Net unrealised exchange differences	405,300	(337,586)	405,300	(337,586)
Doubtful Debts	393,688	258,547	466,787	185,448
<b>Change in operating assets and liabilities, net of effects from purchase of controlled entity</b>				
Decrease (Increase) in trade debtors & bills of exchange	238,140	(2,028,442)	2,522,815	(2,192,813)
Decrease (Increase) in inventories	(898,028)	(2,277,856)	(1,192,171)	(2,277,856)
Decrease (Increase) in income tax receivables	532,547	(610,522)	532,547	(610,522)
Decrease (Increase) in other operating assets	167,283	(163,157)	(987,756)	(155,924)
(Decrease) Increase in trade creditors	(704,186)	1,675,064	(885,670)	1,762,181
(Decrease) Increase in other operating liabilities	276,046	105,229	172,712	153,793
(Decrease) Increase in provision for income taxes payable	181,912	55,242	—	—
(Decrease) Increase in provision for deferred income tax	(775,516)	774,972	(725,976)	823,367
(Decrease) Increase in other provisions	142,031	287,600	148,008	332,601
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	97,328	893,106	(87,767)	725,700

**NOTE 35. NON-CASH FINANCING AND INVESTING ACTIVITIES**

	2002 shares	Consolidated 2001 shares	2002 \$	Parent entity 2001 \$
Conversions of options	—	6,083,053	—	6,083,053
Conversion of preference shares to fully paid ordinary shares	—	1,904,941	—	1,904,941

## NOTES TO FINANCIAL STATEMENTS

### For the year ended 30 June 2002

#### NOTE 36. EARNING PER SHARE

	2002 Cents	Consolidated 2001 Cents
Basic earnings per share	(1.4)	1.7
Diluted earnings per share	(1.4)	1.7
Basic earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	(0.8)	2.1
Diluted earnings per share excluding amortisation of intellectual property capitalised on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan	(0.8)	2.1

	2002 Number	Consolidated 2001 Number
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	140,000,000	115,192,819
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	140,000,000	115,192,819

#### 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 \$1,897,773 and there are no reconciling items to the loss from ordinary activities after income tax expense.

#### Reconciliation of earnings used in calculating alternative earnings per share

Profit / (Loss) from ordinary activities after income tax expense.	(1,897,773)	1,971,377
Amortisation of intellectual property on acquisition of Compumedics Telemed Pty Ltd. and Neuroscan Ltd.	789,994	418,467
	(1,107,779)	2,389,844

#### Options

Options that have been granted are considered to be potential ordinary shares, however their conversion to ordinary shares does not increase the loss per share, as such the options are not dilutive and have not been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options are set out in Note 30.

#### EPS – Calculation for year ended 30 June 2001

The existing shares in Compumedics Limited were split ahead of the shares being listed on the Australian Stock Exchange. The basis of the shares split was 35.95 new 50cent ordinary shares for each existing share held at the time of the share split, creating 92,775,119 new shares.

The calculation of Earnings per share assumed the share split for the whole period.



## DIRECTOR'S DECLARATION

For the year ended 30 June 2002

The Directors declare that the financial statements and notes set out on pages 31 to 58:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; 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.

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



**D Burton**

Director

Melbourne

24th September 2002

## Independent audit report to the members of Compumedics Limited

### MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This audit report relates to the financial report of Compumedics Limited (the Company) for the financial year ended 30 June 2002 included on Compumedics Limited's web site. The Company's directors are responsible for the integrity of the Compumedics Limited's 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 identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. 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 to confirm the information included in the audited financial report presented on this web site.

### AUDIT OPINION

In our opinion, the financial report, set out on pages 31 to 59:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Compumedics Limited and the Compumedics Group (defined below) as at 30 June 2002 and of their performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

### SCOPE AND SUMMARY OF OUR ROLE

#### The financial report – responsibility and content

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of Compumedics Limited. It includes the financial statements for Compumedics Limited (the Company) and for the Compumedics Group (the Group), which incorporates Compumedics Limited and the entities it controlled during the year ended 30 June 2002.

#### The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

### Independence

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in note 28 to the financial statements. In our opinion the provision of these services has not impaired our independence.



PricewaterhouseCoopers



S. C. Bannatyne  
Partner

PricewaterhouseCoopers  
ABN 52 780 433 757

333 Collins Street  
MELBOURNE VIC 3000  
GPO Box 1331L  
MELBOURNE VIC 3001  
DX 77 Melbourne  
Australia  
www.pwcglobal.com/au  
Telephone +61 3 8603 1000  
Facsimile +61 3 8603 1999

Melbourne  
24th September 2002

## SHAREHOLDERS INFORMATION

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is as at 10th September, 2002.

**SHAREHOLDINGS** 140,000,000

### *Substantial Shareholders*

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>%</b>
D & DJ Holdings Pty Ltd.	90,675,710	64.8
Teijin Limited	8,293,698	5.9
NJI No 2 Investment/C	7,591,346	5.4
<b>Total</b>		<b>76.1</b>

### *Distribution of Shareholders*

<b>Category</b>	<b>Number of shareholders</b>
1 – 1,000	164
1,001-5,000	733
5,001-10,000	433
10,001-100,000	380
100,001-over	47
<b>Total</b>	<b>1,757</b>

366 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.

<b>Unquoted equity securities</b>	<b>Number of issue</b>	<b>Number of holders</b>
Options issued under the Compumedics Employee Share Option Plan to take up ordinary shares	5,408,423	75

## SHAREHOLDERS INFORMATION

### TWENTY LARGEST SHAREHOLDERS

Name		Number of ordinary shares held	%
D & DJ Holdings Pty Ltd.	(Note 1 & 2)	90,675,710	64.8
Teijin Limited	(Note 1)	8,293,698	5.9
NJI NO 2 Investment/C	(Note 1)	7,591,346	5.4
JADT Limited	(Note 1)	2,530,436	1.8
Sandhurst Trustees Ltd.		2,406,090	1.7
Diversified United Investment Ltd.		1,000,000	0.7
TV Games Pty Ltd.		825,000	0.6
National Australia Trustees Limited		757,676	0.5
Australian United Investment Company Limited		750,000	0.5
Graeme Moir Holdings Pty Ltd.		710,000	0.5
Blackwood Amber Pty Limited		583,000	0.4
Mr Paul Henry Golding		500,000	0.4
Beta Gamma Pty Ltd.		460,000	0.3
Hawkins & Birthwright Limited		350,000	0.3
Sleep Diagnostics Pty Ltd.		319,735	0.2
Gordon Hamilton Robinson		293,000	0.2
Moir's Investment Service Pty Ltd.		260,000	0.2
Mr. John Dennis Tilton + Mrs. Debbie Tilton		260,000	0.2
Summit Twenty-Five Pty Ltd.		250,000	0.2
Mrs Joan Elaine Steel		240,000	0.2

*The 20 largest shareholders hold 85% of the ordinary shares of the Company*

Note 1: The shareholder was an existing shareholder before the listing of the Company on the Australian Stock Exchange on December 21, 2000  
The shareholder's holding of ordinary shares is subject to certain escrow provisions, details of which are available from the company.

Note 2: Mr David Burton holds his ordinary shares in the company through D & DJ Holdings Pty Ltd. and Electro Molecular Pty Ltd.  
These have been combined here.

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

Mr David Burton  
Mr Koichiro Koike  
Mr John Dyson  
Professor Graham Mitchell  
Mr Alan Anderson

### Company Secretary

Mr David Lawson

## EXECUTIVE TEAM

### Executive Chairman, CEO

Mr David Burton

### Chief Technology Officer and General Manager

Mr Warwick Freeman

### Chief Financial Officer

Mr David Lawson

### General Manager Manufacturing

Mr Andrew Smith

### Vice President Global Marketing

Mr Dan Moore

### General Manager Sales & Marketing, Australasia

Mr David Loiterton

### President, Neuroscan Ltd.

Dr Stephen Sands

## PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

1 Marine Parade  
Abbotsford VIC 3067  
Telephone: (03) 8413 7300

## AUDITOR

### PricewaterhouseCoopers

Chartered Accountants  
Level 14 333 Collins Street  
Melbourne VIC 3000

## SHARE REGISTERS

### ASX Perpetual Registrars Limited

Level 4  
333 Collins Street  
Melbourne VIC 3000  
Phone: (03) 9615 9822

## SOLICITORS

### Freehills

Level 48  
101 Collins Street  
Melbourne VIC 3000

## BANKERS

### National Australia Bank

Level 21  
535 Bourke Street  
Melbourne VIC 3000

### Stock Exchange Listings

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

B0253

## DEFINED TERMS

When used in this Prospectus, 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).
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).
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 <sub>2</sub>	Blood Oxygen Saturation Level.
SHHS	Sleep Health Heart Study.
TcCO <sub>2</sub>	Transcutaneous Carbon Dioxide Level.
Thoracic	Pertaining to or affecting the chest.







[www.compumedics.com.au](http://www.compumedics.com.au)