

# ‘Defining *life’s* signals’



> SLEEP DIAGNOSTICS

> NEURO DIAGNOSTICS

> BRAIN RESEARCH

> ANNUAL REPORT 2003

> OUR STRATEGY

> THE FACTS

# Our strategy:

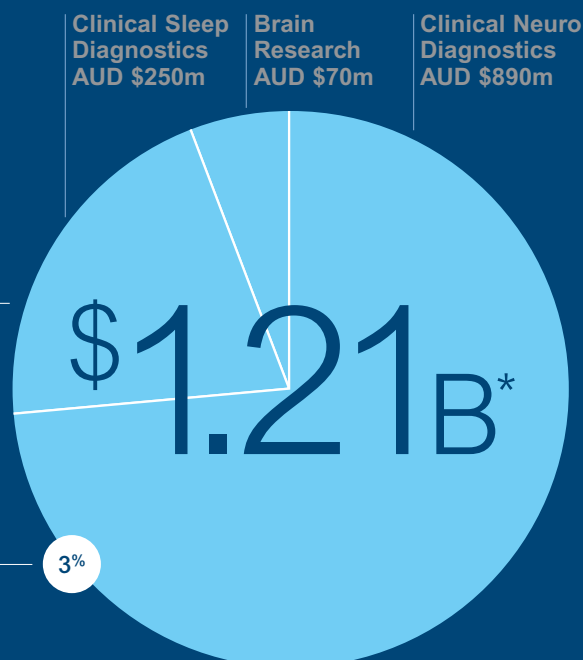
- Grow our global sleep diagnostic business to a leading market share in each of our markets.
- Expand our Neurological diagnostic business in the USA following the successful development of the business in Australia.
- Release innovative products to capitalise on market opportunities and maintain product leadership in those markets.
- Establish new operational structure to separate Medical Innovation from the core business and enable both opportunities to be fully exploited.

## Estimated global market value = AUD\$1.21 billion

Compumedics' core sleep diagnostic technology is now being leveraged into the associated fields of neuro diagnostics and brain research. Combined, these markets are more than \$1.2b globally.

## Compumedics' current market share = 3% globally

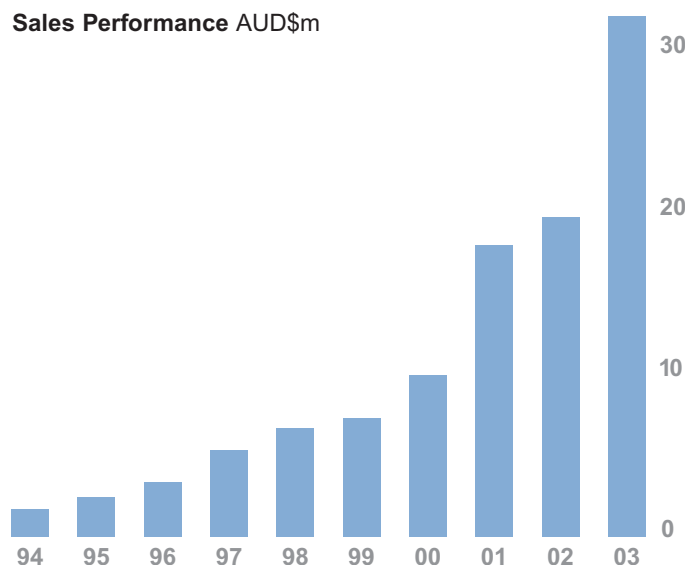
Compumedics holds strong domestic market shares in sleep diagnostics and neuro diagnostics at more than 70% and 50% respectively. Globally, our market shares are expanding rapidly but are still relatively small.



\* All market information throughout this report is based on Frost and Sullivan (2001) US Sleep Apnea Diagnostic and Therapeutic Market. Innomed International (1996) EEG/EMG/ Brain Function Markets – A Global Business Report.

# The facts:

- Partnership with a leading European medical company Dräger Medical AG commenced.
- USA sleep diagnostic business grows 50% year on year.
- Japanese sleep diagnostic business grows 100% year on year
- Newly established USA neuro diagnostic business unit, Compumedics Neuroscience, has demonstrated significant growth.
- Somté, the first cardiac-sleep combined diagnostic device received FDA clearance.
- SynAmps 2, a completely new generation brain research product, received FDA clearance.
- Key appointment of a Chief Operating Officer.
- Novel patents awarded to Medical Innovation projects including diagnostic sleep treatment applications.



## The Business of Compumedics

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

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

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

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

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### Compumedics Limited

ABN 95 006 854 894

### Annual General Meeting

Thursday 23rd October 2003 at 10am  
To be held at: Compumedics Limited  
30-40 Flockhart St.  
Abbotsford VIC 3067

# Working the plan to grow profitability

## EXECUTIVE CHAIRMAN AND CEO'S REVIEW

This year was a test for the Compumedics' people and their mettle. We delivered a \$3m positive improvement in earnings before interest, tax, depreciation and amortisation from the previous year. Our operating cash and debtors were positive and under control. We achieved sales growth of 62% year on year.

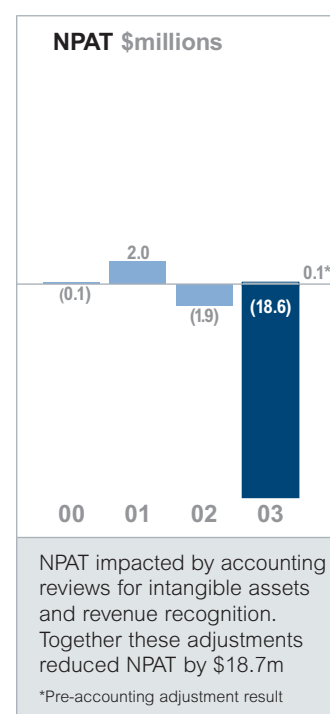
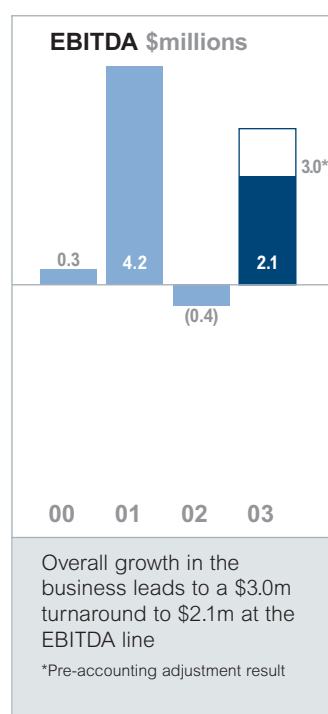
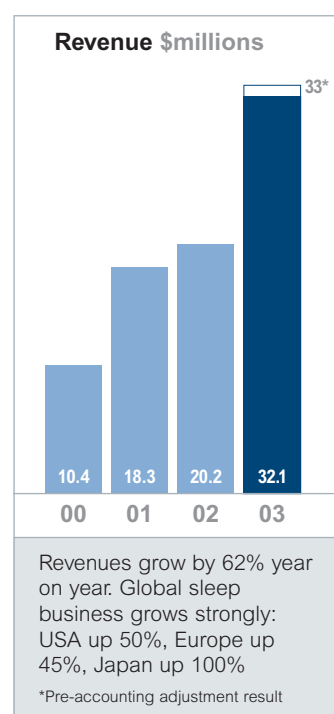
At the same time, we moved to new world-class custom built facilities in Melbourne and have a new product pipeline that is the strongest in our history, expounding our unique strategy of being a broad based diagnostic company with a focus and unique edge in sleep diagnostics.



# Financial Summary

ALL FIGURES IN AUD\$M UNLESS OTHERWISE STATED

	2003 PRE-ACCOUNTING ADJUSTMENTS	2003
Operating Revenue	33.0	32.1
Earnings before interest, income tax, depreciation and amortisation	3.0	2.1
Earnings before interest and income tax	0.0	(18.8)
Operating profit after tax	0.1	(18.5)
Research and development costs as a percentage of operating revenue (%)	20%	21%
Total assets at 30 June 2003	42.5	23.8
Shareholders funds at 30 June 2003	30.4	11.7
Net tangible assets per share at 30 June 2003 (cents)	8.3	8.3
Weighted average number of shares (million)	140	140
Earnings per share (basic) (cents)	(13.3)	(13.3)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents)	2.1	1.5



# Executive Chairman and CEO's Review

## CONTINUED

### What were accounting reviews for?

The reviews that led to the adjustments in this year's accounts were related to two factors, revenue recognition and intellectual property. In both instances the Directors considered how the business has grown and changed over the last few years and the impact this growth and change has had on the way the company accounts for its revenue and intellectual property.

In both situations the Directors took into account where the business is currently at, its future development and current and future practices for financial reporting of these items.

On review of these factors the Directors decided to adjust the treatment of both. In relation to revenue recognition the Directors decided to defer a portion of revenue to better reflect the post sale training and installation obligations of the Company now that the Company earns the majority of its revenue through direct sales to end-user customers.

In relation to intellectual property the Directors took account of the existing valuations, future projections of the business, current and future financial reporting practices for intellectual property, the growth and change to the business to date. On review of all these factors the Directors decided that intellectual property values should not be carried on the balance sheet.

### Do these adjustments mean that the company does not have confidence in delivering a return in the future from the intellectual property it owns?

No, quite the contrary. The Directors still fundamentally believe that the intellectual property that the Company has generated internally and acquired to date will deliver significant returns over the years to come. The company has a history stretching back almost 20 years over which returns have been delivered and it sees no reason to believe this won't continue.

However the Directors again considered the business' performance to date, current and future accounting requirements, the future direction of the business and current best practice in financial reporting and decided to adjust the asset values to reflect these factors.

### The move to international accounting standards will soon be upon us. Will there be any further accounting reviews?

The Directors believe that as a consequence of this year's reviews the material aspects of moving to international standards has been dealt with. Whilst there will undoubtedly be further adjustments, these are not expected to have a material impact on the financial results of the company going forward.

### Putting the accounting reviews aside, what is your assessment of the performance of the business for the financial year?

The business has performed very strongly considering the external factors the business had to deal with particularly during the second half of the year, such as rising exchange rates and SARS in Asia.

Excluding the accounting review adjustments the business was strongly positive at the EBITDA line improving \$3.0m over the past year to \$2.1m and breakeven at the after tax line at \$0.1m, a \$2.0m improvement over the prior year.

The core sleep business has performed very strongly around the globe with revenues growing by over 50% in the USA, 45% in Europe and 100% in Japan.

#### Strategy:

Our medium term objective is to see revenues at:

**\$100** M P.A.

#### Fact:

Revenues for the last five years have grown an average:

**+35%** P.A.

The European business was boosted with the signing of a major new distribution deal with Dräger Medical for our sleep products into that territory and also benefited from the Neuroscan acquisition.

The Melbourne based manufacturing activities were moved to new world class facilities on a lease that was recently extended from 6 to 8 years.

The Neuroscan business now has been fully integrated and the European and Asian parts of that business performed strongly. The USA business did not perform to plan as a result of the delay in Synamp2, however this was released in June 2003 and has enjoyed strong acceptance since then.

Taking all these factors into account the business has done very well although much more remains to be done, to attain benchmark profitability targets.

#### **What other structural changes have been made to the company?**

One of the key changes has been to appoint a Chief Operating Officer to manage the day-to-day running of our business. We are a much bigger and broader company now and I found I wasn't able to do justice to both the operational and developmental aspects of the Chief Executive's role. With the appointment of Mr. Andrew Smith to the COO role, I am now able to focus on the technologies and partnerships that will be the future of Compumedics.

#### **What are the major achievements in the past year?**

There have been many achievements during the year across the entire business. Some of the more important achievements have been:

- A three-year \$10 million European distribution and technology development deal with one of the world's leading medical instrument companies, Dräger Medical.
- 100% growth in the Japanese market year on year after 10 years of investing in the building of a strong relationship with Teijin.
- FDA clearance to sell Somté in the lucrative US market.
- Canadian approval to market the Somté portable sleep diagnostic device.
- Australian Federal Trade Minister official opening at Compumedics' Melbourne world class manufacturing facility.
- Patents for novel diagnostic sleep treatment products potentially taking Compumedics' expertise into the much larger field of treatment for sleep disorders.
- Exciting developments in the new Medical Innovation areas.

#### **Can revenue growth continue at the current rates?**

The world sleep market is still growing at around 15% pa and is showing no signs of slowing down and while we have made excellent inroads into all of the key markets, our overall share is still quite modest. For example the USA market share is only around 14%. With the acknowledged strength of our technology and the quality of our technical partnerships and distribution channels, we are confident that we can substantially increase our share of the expanding market and continue to grow revenues.

#### **How did Compumedics perform in each of the major markets last year?**

The USA sleep business performed strongly with growth year on year of just over 50%. Significant inroads were made into the USA resulting from the switch to direct Compumedics distribution. The USA strategy and decisions are proving to be correct and the business is now on firm ground for continued USA growth.

#### **Strategy:**

Exploit Medical Innovation commercial opportunities.

#### **Fact:**

Operational business separated and Chief Operating Officer appointed.



In Asia Pacific the sleep business performed well, despite SARS, growing by 12% year on year. Neuroscan's Asia Pacific business was also strong at \$3m sales for the year. The Japanese market grew by 100% in the current year. The medical supplies business in Asia Pacific also grew strongly at 35% over the previous year.

Our European business now appears to be on firm ground and set for continued growth with the appointment of Dräger for our sleep diagnostics products and a network of neuro diagnostics distributors.

#### What is currently more important—growth in revenue or profitability?

Of course the two are not mutually exclusive, but if we find ourselves having to choose, profits will come first. We have to earn the right to grow further by first delivering strong profits from what we now have in place.

#### Will the Neuroscan acquisition deliver the returns originally anticipated?

The Neuroscan acquisition was a logical step for the company into the neurological field and significant intellectual property along with an existing business was purchased. I still firmly believe that what we purchased is very valuable and that we will see this value over the course of the next few years.

#### The American business is now over half the business of the company. What are the expectations for the US business in the next period?

The US business and its continued growth is very important to the company. Generating profits from this business is our clear focus. We are the world leading supplier of sleep diagnostic technology and ensuring we have a major share and profitable share of the sleep market in the world's biggest market is critical to our strategy. Coupled with this, will be maintaining Neuroscan's leading market share in the USA, rapidly expanding the Neuroscience, or neuro diagnostics market share and logically building the medical supplies business.

#### How has the company started the new financial year?

The first few months trading are in-line with history. Traditionally these are the quietest months of the year for Complumedics, as both the American and European markets are on summer vacation and Australian hospitals have pre-bought in June ahead of the new financial year and new hospital budgets.

All markets are now starting to come back on-line with the European business looking particularly strong at present.

#### What is the business outlook for the 2003/2004 year?

The focus will clearly be on driving profits out of future revenue growth of the company as well as the established intellectual property base, and to further capitalise on the larger and growing customer base.

Product margins and earnings improvements will come as growth continues. The business has in place the structures for each of its markets and the focus will be on delivering earnings and cash from these activities.

#### What products are currently in the pipeline?

Complumedics' focus on research and development is uncompromised. Last year we spent approximately 20% on R&D. With the growth in the company we expect this to average out at 12% over the next couple of years.

#### Strategy:

Our R&D spend for FY03 was:

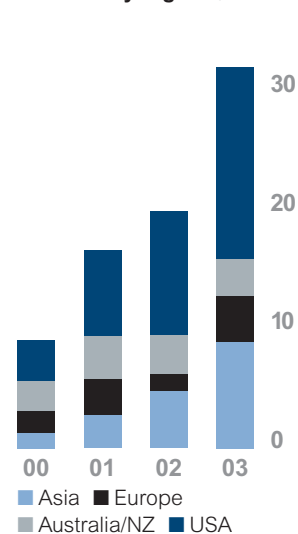
**\$6.7<sub>M</sub>**

#### Fact:

Sales in FY03 from product released in the last two years:

**+60%**

Revenue by region \$m



**Strategy:**

Our long term strategy is to grow the global sleep business to leading market shares.

# **1** Sleep Diagnostic Specialist

**Fact:**

We distribute to more than 50 countries.  
Australian market share:

**+70%** P.A.

In support of this the company generated approximately 60% of its current revenue from products released within the last 2 years.

In the pipeline the company has the following products.

- Synamp2, new core amplifier fully developed by Compumedics
- Expansion of propriety consumable range
- ProFusion neXus
- StimII
- Scan LT
- Siesta II

**What changes have been made to the management of Medical Innovation?**

The restructure of the management team and appointment of a Chief Operating Officer has also enabled the separation of the management of Medical Innovation from the core business. The Medical Innovation activities will be led by myself. This will enable me to better focus on those opportunities that will define Compumedics into the future and let the COO focus on generating profits and cash from the present technology and product offering.

**What is Medical Innovation currently working on?**

Medical Innovation currently has several projects that it is working on.

The three that are most progressed are:

- In-depth anesthesia monitoring
- Diagnostic sleep treatment
- Driver drowsiness counter measures

**How is distribution managed in each market?**

We have adopted a “horses for courses” approach to distribution, selecting the most appropriate option for each market. In Europe and Japan, we have teamed up with industry leaders in Dräger and Teijin to take our products to the marketplace and to work with us on technology development. By contrast, we have set up our own sales team in the world’s biggest market in the United States. In this market we initially used distributors but found it impossible to get the attention our products needed. Since changing to our own team, we have seen a dramatic improvement in the rate of penetration into the US market.

**What share of the available market does Compumedics currently have?**

Compumedics is the leading company for clinical sleep and neuro diagnostics in Australia, holding more than 70 and 50 percent of each market respectively. On the world stage, Compumedics is the major player in neurophysiology, holding a significant share of the world market for brain research instruments. Compumedics’ share of the global market has been growing rapidly, and the US is currently responsible for generating approximately 50% of the Company’s revenues.

**What final comments do you have for the shareholders?**

Compumedics continues on the plan and strategy that have been in place now for several years. The infrastructure, distribution and markets are in place and are delivering or beginning to deliver both in terms of revenue growth and profits.

Whilst this has taken longer than initially thought the plan and strategy remains effective and focused. We will remain a world leading medical technology company, focused on sleep disorders and associated fields. The focus is now on harvesting profits and cash from, our strong revenue and technology base.



**David Burton** EXECUTIVE CHAIRMAN & CEO

Compumedics invents, develops, manufactures and distributes medical technology products in three market sectors. They are:

## **Clinical Sleep Diagnostics:**

Compumedics develops medical technologies used for the clinical diagnosis of a wide range of sleeping disorders including Sleep Apnea. Our equipment allows clinicians to make better-informed decisions on appropriate therapies. This is our core business.

## **Clinical Neuro Diagnostics:**

Compumedics' technologies are also used for the clinical diagnosis and monitoring of diseases related to the brain and nervous system. Common applications include epilepsy testing, pharmaceutical efficacy studies and after care treatments.

## **Brain Research:**

Compumedics' Neuroscan technologies facilitate researchers in their study of the brain, its structure and the related functionality. Our advanced technologies allow the brain's electrical activity and functionality to be mapped and quantified to improve understanding of the brain.

**Our strategy:** Grow our global sleep diagnostic business to a leading market share in each of our markets.

**The facts:** In the last year, our USA business has grown 50% and our Japanese business 100%. In Europe, we established a partnership with Dräger Medical.

# Clinical Sleep Diagnostics:

## What is the sleep industry?

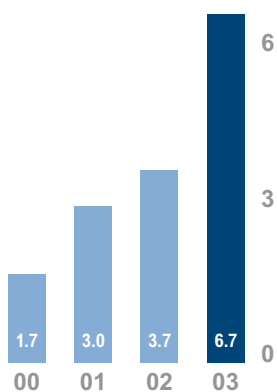
The sleep industry is comprised of diagnostic and therapeutic technologies and medicines.

Until the late 1980s, sleep disorder studies were considered a special Neurodiagnostic field of research, and not a field of medicine in its own right. In the early 1990s the first large scale study on the prevalence of sleep disorders in the US population revealed that nearly 20 million of the adult US population was suffering from Obstructive Sleep Apnea. Although public awareness programs started soon afterwards, a National Sleep Foundation study conducted in 1998 showed that 61% of the people surveyed had never been asked by a doctor how well they slept. Recent studies have shown that sleep disorders have been found to be more prevalent than asthma in the USA. Given the relatively low levels of public awareness, and the high prevalence of sleep disorders today, there is great potential for growth in the sleep industry.

Compumedics' core business lies in the design and manufacture of technologies for the diagnosis of sleep disorders – a market estimated to be worth AUD\$250 million worldwide and growing.

Because effective treatment begins with accurate diagnosis, we see great potential for the growth of our business.

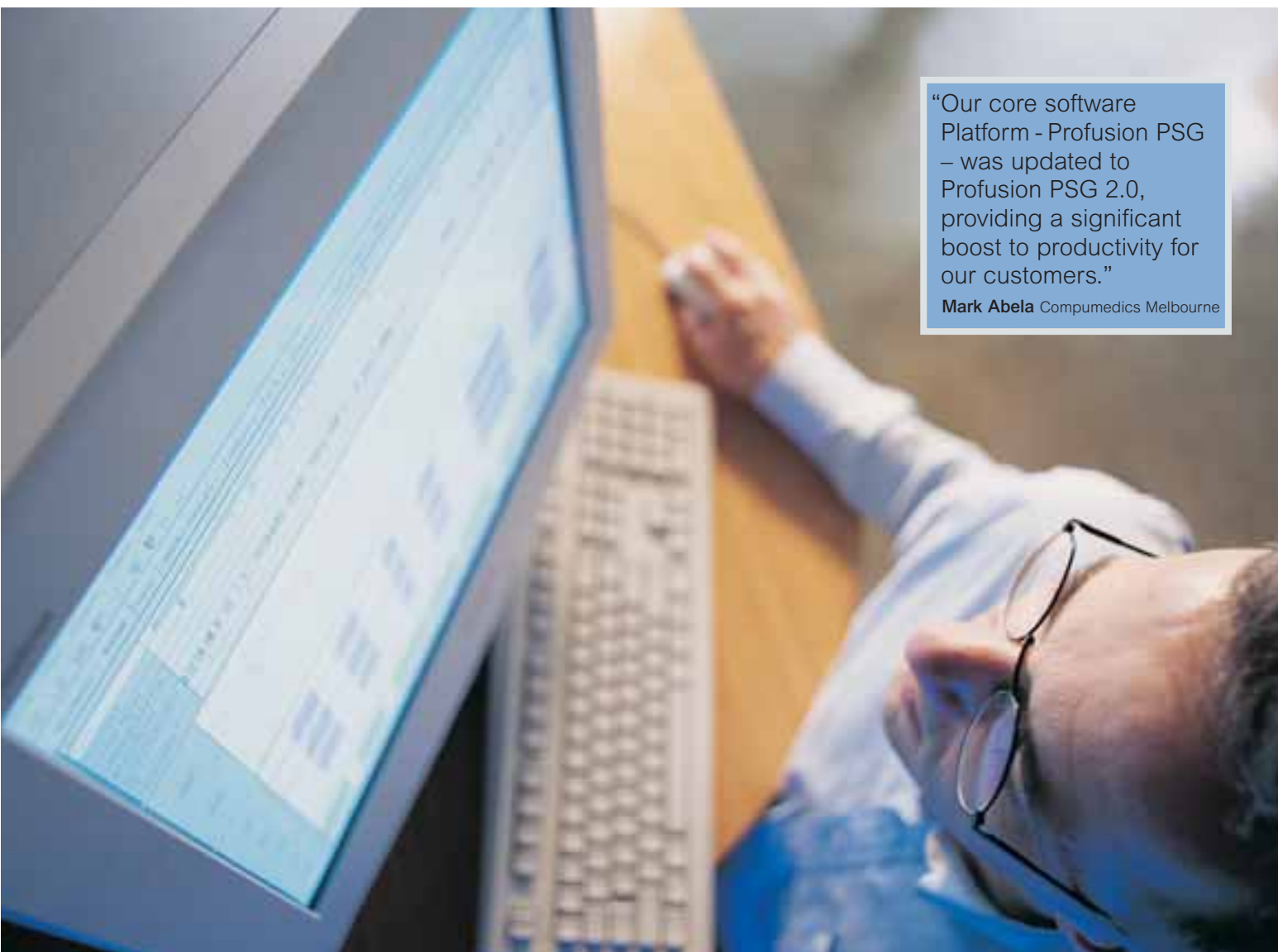
R&D expenditure AUD\$m



## What is a sleeping 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. The most common form is Obstructive Sleep Apnea (OSA) and is a 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 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, resulting in disturbed sleep. These apnoea episodes can last for 10 seconds or longer and can occur 200-300 times in a standard night's sleep.

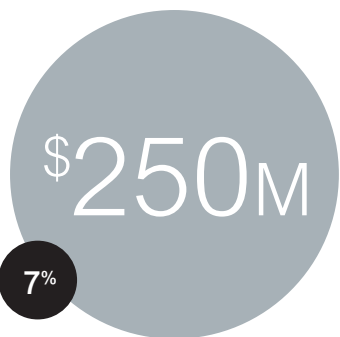


“Our core software Platform - Profusion PSG – was updated to Profusion PSG 2.0, providing a significant boost to productivity for our customers.”

**Mark Abela** Compumedics Melbourne

### Size of the global sleep diagnostic market:

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 AUD \$250 million per annum.

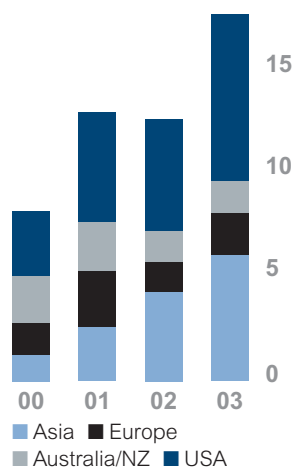


#### Compumedics' current market share

Compumedics holds strong domestic market shares in sleep diagnostics at more than 70%. Globally, our market shares are expanding rapidly but are still relatively small.

### The sleep diagnostic regions we operate in:

Sleep revenues by region AUD\$m



### Competitive advantages:

#### 1 Innovation strength

Compumedics invests heavily in Research and Development and as a result, the products are some 18-24 months ahead of competition.

#### 2 Active involvement in Sleep science globally

Close involvement with sleep researchers allows for competent creation of commercial value from the associations.

#### 3 Market placement and momentum

Compumedics holds leading market share of over 70% in Australia and is ranked in the leading providers of sleep technologies in USA, Asia and Europe.

## How common are sleep disorders

In 1993, the National Commission on Sleep Disorders Research estimated that approximately 20 million individuals in the USA suffer from OSA. Of this 20 million, more than 30% 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.

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

## 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 (also called a Polysomnography (PSG) study) either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. For 8 to 10 hours, breathing patterns, brain activity, heart activity, leg movements, eye movements, patient position and responses to light, sound and temperature are monitored. The data is collected and analysed for diagnosis by the specialist.

## Links to other diseases

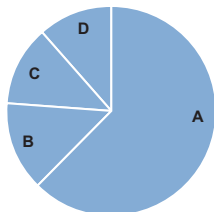
Sleep disordered breathing is more common in people with high blood pressure, heart disease and a number of other common medical conditions. It is thought that the lowering of blood oxygen during sleep and the frequent apnoeic episodes contribute to vascular, heart and brain dysfunction such as stroke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

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

## Compumedics' products in this market

Product	Description	Patents	Markets
<b>E-Series</b>	One of the most powerful and flexible physiological amplifier systems available today. Built with the computer network in mind, the integrated TCP/IP architecture allows control and/or monitoring of E-Series amplifiers on the laboratory LAN from any computer on the network.	✓	Australia USA, Asia Europe
<b>Somté</b>	A new investigative tool for "holter-style" recording of both cardiac and respiratory data. Somté provides the comprehensive software analyses to assist in understanding the nature and severity of the inter-related disorders of sleep and cardiology	✓	Australia USA, Asia Europe
<b>Siesta</b>	Siesta is the only sleep recorder in the world with built-in wireless LAN communication. Its wireless LAN technology allows clinicians with testing options and opportunities never before available. With Siesta, patients are able to move about freely, while the clinician continues to monitor and record the data. Furthermore, its revolutionary size, flexibility and power make this universal data recorder a truly versatile system.	✓	Australia USA, Asia Europe
<b>ProFusion PSG2</b>	ProFusion PSG2 is a high-powered, comprehensive software companion to our family of leading-edge Sleep Diagnostic recorders/amplifiers. ProFusion PSG2 will optimise the laboratory efficiency by improving scoring speed and providing clear, accurate results in exactly the report formats needed. ProFusion PSG2 is designed to give clinicians clarity, power, speed, quality assurance and great reports.	✓	Australia USA, Asia Europe
<b>Digital Video</b>	Available as an option with Siesta and E-Series systems, this highly developed video package allows for an optimised and synchronized view of all patient activities during the recording process and during record review/scoring.	✓	Australia USA, Asia Europe

Sleep diagnostic device  
revenues by product AUD\$m



<b>A. E-Series</b>	10.92
<b>B. Siesta</b>	2.41
<b>C. Somté</b>	2.16
<b>D. Software</b>	2.01



Siesta



E-Series

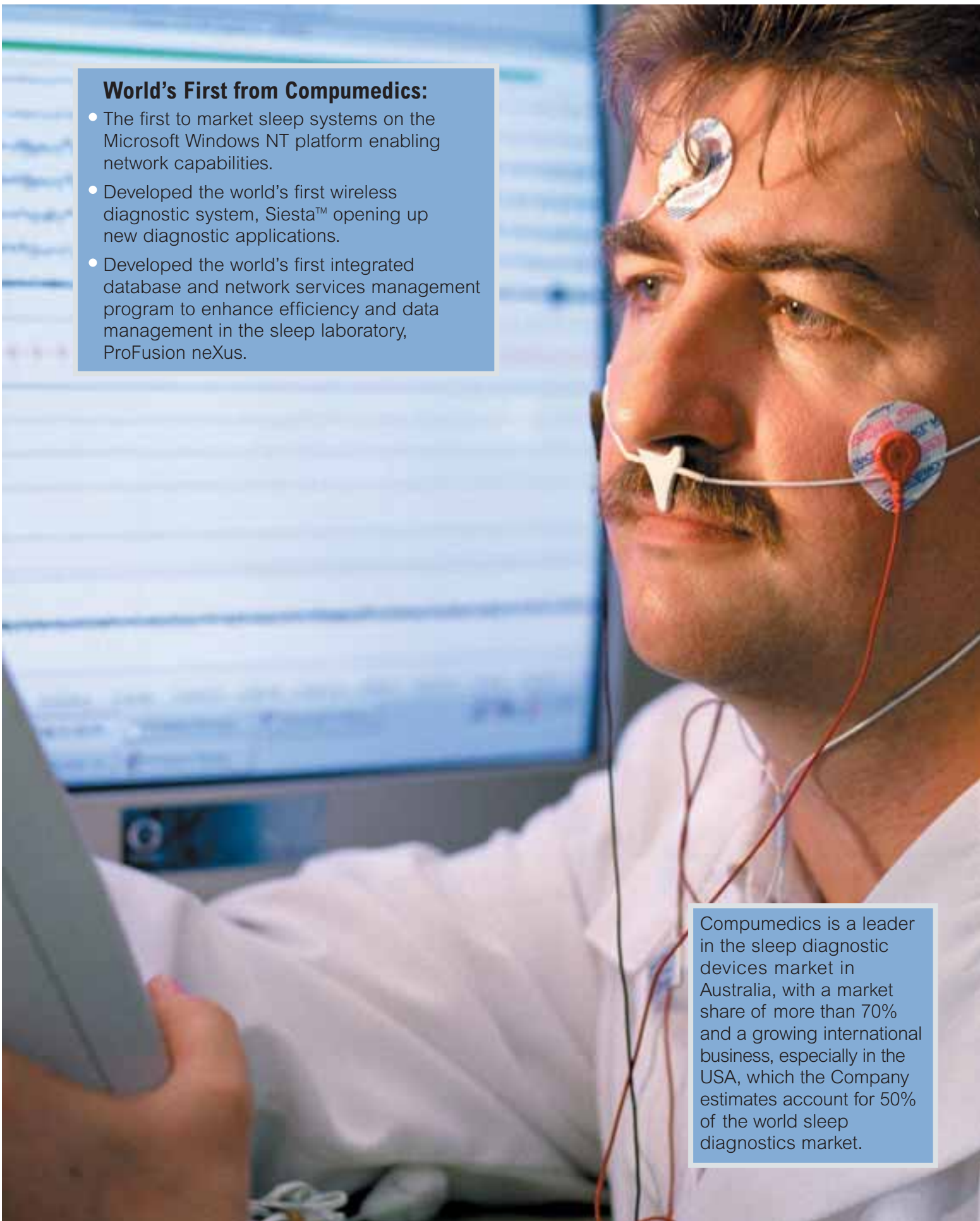


Somté

### World's First from Compumedics:

- The first to market sleep systems on the Microsoft Windows NT platform enabling network capabilities.
- Developed the world's first wireless diagnostic system, Siesta™ opening up new diagnostic applications.
- Developed the world's first integrated database and network services management program to enhance efficiency and data management in the sleep laboratory, ProFusion neXus.

Compumedics is a leader in the sleep diagnostic devices market in Australia, with a market share of more than 70% and a growing international business, especially in the USA, which the Company estimates account for 50% of the world sleep diagnostics market.



**Our strategy:** Expand our Neurological diagnostic business in the USA off the successful development of the business in Australia

**The facts:** Newly established USA neuro diagnostic business unit, Compumedics Neuroscience, has demonstrated significant growth.

# Clinical Neuro Diagnostics:

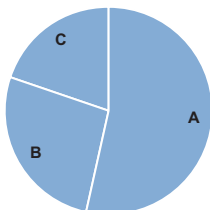


Digital Video EEG System



Safiro

Neuro diagnostic device revenues by product AUD\$m



A. Software	0.46
B. E-Series	0.23
C. Other	0.17

## What is the clinical neuro diagnostics industry?

Clinical Neuro Diagnostics is the study of electrical activity in the brain, spinal cord, nerves and muscles for the diagnosis and monitoring of neurological based diseases. The methods used to study clinical neurophysiology include Electroencephalography (EEG), Electromyography (EMG) and Evoked Potentials (EP). These tests may be performed in hospital outpatient departments, neurophysiology labs, operating theatres, intensive care units and private practise.

## Compumedics' products in this market

Product	Description	Patents	Markets
<b>E-Series</b>	The E-Series is a popular EEG diagnostic system for use in the laboratory, and is also versatile for ambulatory and portable configurations. Its integrated TCP/IP architecture allows clinicians to control and monitor the EEG amplifiers from any computer on the laboratory LAN.	✓	Australia USA, Asia Europe
<b>Siesta</b>	Siesta is the only EEG recorder in the world with built-in wireless LAN communication. Its wireless LAN technology allows clinicians to monitor and analyse data as patients move about untethered in their daily routines. Furthermore, its revolutionary size, flexibility and power make this universal data recorder a truly versatile system.	✓	Australia USA, Asia Europe
<b>Safiro</b>	Safiro is an ambulatory EEG system designed for optimum convenience and capability. At only 300gms, the Safiro is the lightest and smallest recorder on the market. This, teamed with a capability of recording up to 32 channels over 24 hours makes the Safiro one of the most powerful ambulatory EEG recorders on the market.	✓	Australia USA, Asia Europe
<b>ProFusion EEG</b>	From clinical 24-channel recordings to long-term 64-channel studies, ProFusion EEG, with its sophisticated user-interface, allows clinicians to quickly collect and review EEG recordings and digital video, archive test data and run sophisticated QEEG analyses.	✓	Australia USA, Asia Europe
<b>Digital Video</b>	An increasingly important element in clinical neuro diagnostics, Digital Video is a tool used to support diagnostic outcomes. Our video package allows for an optimised and synchronized view of all patient activities during the recording process and during record review/scoring.	✓	Australia USA, Asia Europe
<b>Comperio</b>	Comperio is an EMG system that delivers quality and flexibility at an affordable price. With its open architecture design, the system may be used as a portable system, or in a high-volume hospital laboratory.	✓	Australia USA, Asia Europe

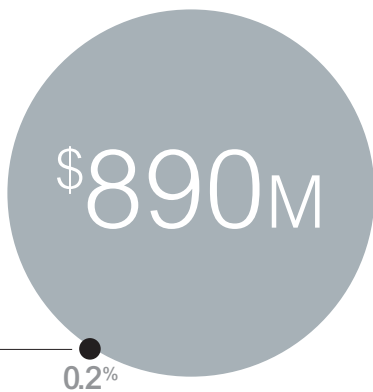




“After using Compumedics neurodiagnostics products for over 5 years, I've found their technologies to be intuitive, reliable and user-friendly. As the systems are designed for use on the hospital network, numerous technologists and neurologists may access the systems simultaneously, making it ideal for use in a busy hospital environment. Furthermore, Compumedics products have the versatility to perform all types of clinical EEG studies, from routine to long-term monitoring, making it a cost-effective and practical solution for our hospital needs”

**Dr. Simon Harvey**  
 Royal Children's Hospital, Melbourne Victoria

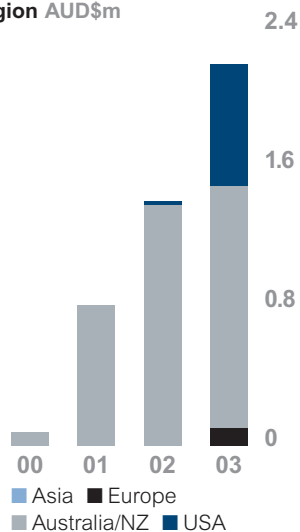
**Size of the global neuro diagnostics market: AUD \$890m**



**Compumedics' current market share**  
 In the next twelve months the neuro diagnostic market is expected to grow.

**The regions we operate in:**

**Neuro Diagnostics revenues by region AUD\$m**



**Competitive advantages:**

**1 Complete range from clinical to research technologies**

Through Neuroscan acquisition, research applications could now be developed for the clinical field and reaffirms Compumedics' commitment as a world-class developer of Clinical Neuro Diagnostic systems.

**2 Complete vertical integration**

Compumedics' integrated research, development, engineering and manufacture provides customers with a complete and more reliable solution.

**3 Strong collaborative links**

Strong collaborative links with major teaching hospitals and universities has enabled Compumedics to develop state of the art clinical neuro diagnostics systems from extensive involvement in Neuroscience research.

**Our strategy:** Release innovative products to capitalise on opportunities and maintain leadership in all key markets.

**The facts:** SynAmps 2, a completely new generation brain research products receives FDA clearance.

# Brain Research:

## What is the Brain Research Market?

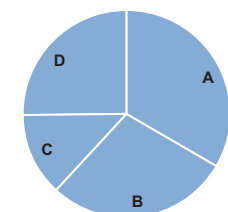
Brain Research is, as the name suggests, the study of the brain's functionality, using Quantitative EEG (QEEG) methods to supplement traditional EEG findings. With the advent of high speed digital information processing and statistical analysis, QEEGs extract and quantify brain electrical activity to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

## Compumedics' products in this market

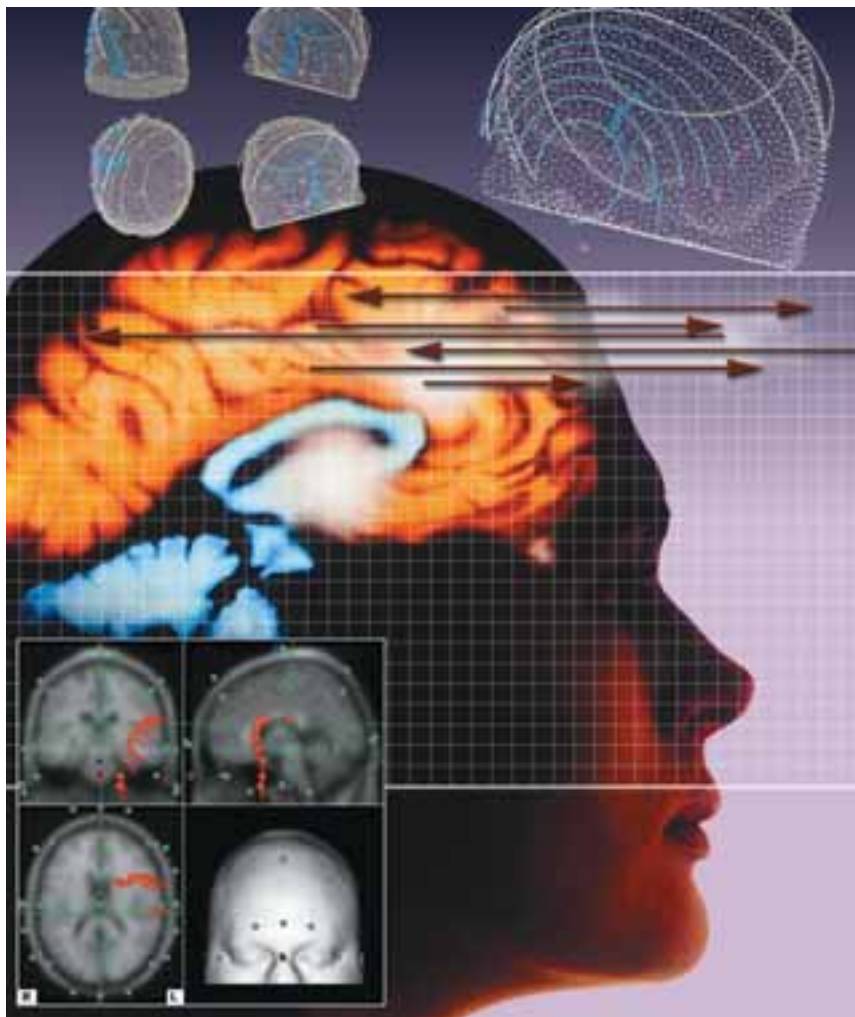
Product	Description	Patents	Markets
<b>SynAmps</b>	SynAmps is the most sophisticated amplifier available. It can be combined to obtain up to 256 channels, and may be interfaced with our STIM system. The SynAmps is designed for use with all research applications.	✓	Australia USA, Asia Europe
<b>NuAmps</b>	NuAmps is a high-quality and inexpensive 40-channel digital EEG amplifier that is capable of 22 bit sampling at 1000Hz, measuring signals from DC to 260Hz. It is fully compatible with Neuroscan's SCAN software and STIM system.	✓	Australia USA, Asia Europe
<b>SCAN</b>	SCAN is the world's leading and most sophisticated software for advanced data analysis in EEG and EP research.	✓	Australia USA, Asia Europe
<b>Curry</b>	Curry offers extensive possibilities for scientific investigations in the field of multi-modal neuroimaging. Dipole solutions are obtained using various source models and reconstruction methods.	✓	Australia USA, Asia Europe
<b>Source</b>	Source is an easy to use tool for EEG/EP source reconstruction that seamlessly integrates with the ESI and SCAN software. Source offers impressive source localisation capabilities, including several dipole modes, three spheres, and BEM and FEM reconstructions.	✓	Australia USA, Asia Europe
<b>STIM</b>	A complete software environment for custom stimulus and task design as well as presentation, the STIM system can be integrated in fMRI, MEG and other functional neuroimaging applications.	✓	Australia USA, Asia Europe
<b>ESI</b>	Electric Source Imaging is available is a powerful and flexible tool for measuring and analysing high-resolution EEG, EP and ERP signals.	✓	Australia USA, Asia Europe
<b>Fastrak</b>	The Fastrak digitizer records the 3D electrode positions, landmarks, and head shape data, which are then used for coregistration in the Curry and Source programs.	✓	Australia USA, Asia Europe
<b>MagLink</b>	The MagLink electrode cap is a second-generation system for recording EEG and EP in the MR and includes significant improvements. MagLink is made from carbon fiber leads and is capable of transmitting signals from the MR bore without introducing artifact in the MR images.	✓	Australia USA, Asia Europe
<b>Quik-Cap</b>	An Electrode Positioning System designed with highly elastic fabric to provide a uniform fit over a wide range of head size and shape variability. Available in 5 sizes with 32 to 256 channels.	✓	Australia USA, Asia Europe



Brain research device revenues by product AUD\$m



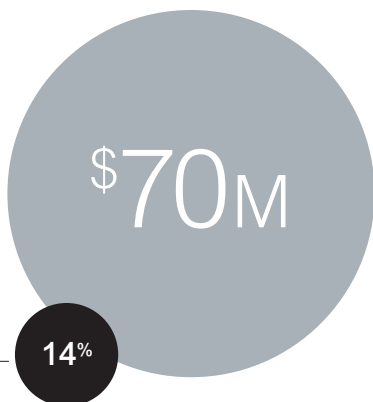
<b>A. SynAmps</b>	3.22
<b>B. Esi</b>	2.75
<b>C. NuAmps</b>	1.25
<b>D. Other</b>	2.43



“The Neuroscan division has released the Synamps2 to the market which continues the legacy of the original Synamps as the premier System for Neurophysiology research applications. In addition to this, the latest version of Scan was also released updating the market’s leading Software package for research Neurophysiology.”

**Warwick Freeman**  
Compumedics’ Chief Technology Officer

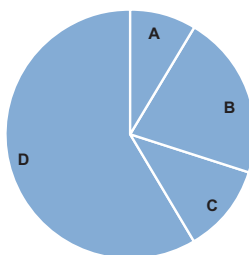
**Size of the global brain research market: AUD \$70m**



**Compumedics’ current market share**  
Compumedics’ market share is poised to accelerate with the strong product pipelines.

**The regions we operate in:**

Brain research revenues by region AUD\$m



A. Australia/NZ	0.83
B. Asia	2.06
C. Europe	1.11
D. USA	5.65

**Competitive advantages:**

- 1 Superior Patented Technology**  
Being one of the first providers of designer solutions for the research market, Compumedics Neuroscan is able to provide a single-provider solution, allowing the integration and scalability ensuring the greatest flexibility and upgrade potential.
- 2 Uncompromised System Design**  
With decades of experience, the R&D and Engineering Teams have approached the system design of the software and hardware with scientific precision. The combination of the advanced hardware and software sets the standard to which all other systems on the market are compared.
- 3 Highest industry quality standard**  
Compumedics Neuroscan has established, documented, and maintained a quality system that ensures products and processes no other company in this industry can match for brain research instruments. This level of certification can only be obtained by careful consideration in the design and engineering process and with reliable manufacturing methods.

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.

## Board of Directors:



**Mr David Burton**  
EXECUTIVE CHAIRMAN, CEO

Mr Burton, 44, 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, and the 2003 Centenary Medal for contribution to science and technology.



**Mr Koichiro Koike**  
NON-EXECUTIVE DIRECTOR

Mr Koike, 46, 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, 62, 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.



**Mr Alan Anderson**  
NON-EXECUTIVE DIRECTOR

Mr Anderson, 47, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented Compumedics for all legal matters in the USA since late 1998. Mr Anderson completed his Bachelor of Arts with Honours (Political Science) at Coe College. He also holds a Master of Business Administration with Distinction, a Doctor in Law with Honours from Cornell University, and a Certificate in International Business and Commercial Law from the McGeorge School of Law (University of the Pacific).

## Senior Management team:



**Mr John Dyson**  
NON-EXECUTIVE DIRECTOR

Mr Dyson, 40, 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 Andrew Smith**  
CHIEF OPERATING OFFICER



**Mr David Lawson**  
CHIEF FINANCIAL OFFICER & COMPANY SECRETARY



**Mr Warwick Freeman**  
CHIEF TECHNOLOGY OFFICER



**Mr Dan Moore**  
VICE PRESIDENT SALES & MARKETING, USA



**Mr David Loiterton**  
GENERAL MANAGER SALES, MARKETING & SUPPORT ASIA PACIFIC / EUROPE

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.

## Medical Advisory Board:

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.

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# 'Financial Statements 2003'

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 2003.

## 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

## PRINCIPAL ACTIVITIES

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

## 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 business segments is set out below:

	Sales revenue		Segment results	
	2003 \$	2002 \$	2003 \$	2002 \$
Sleep	17,676,922	12,633,482	(6,179,070)	(2,400,003)
Neuroscan	9,648,760	2,702,090	(7,169,680)	476,040
Neuroscience	2,138,731	1,414,242	(5,777,594)	(268,666)
Neuro Medical Supplies	2,591,730	2,997,445	623,730	(569,429)
<b>Total</b>	<b>32,056,143</b>	<b>19,747,259</b>	<b>(18,502,614)</b>	<b>(2,762,058)</b>
Less: Unallocated revenue less unallocated expenses			(509,046)	6,328
Loss from ordinary activities before interest and income tax expense			(19,011,660)	(2,755,730)
Net interest revenue			46,894	260,237
Income tax benefit			408,106	597,620
Net loss attributable to members of Compumedics Limited			(18,566,660)	(1,897,773)

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

### *Sleep*

Sleep revenue of \$17.6m was up 40% on the previous corresponding period, reflecting the improvement in the USA market as a consequence of moving to direct distribution in that market. In addition both Neuroscience and Neuro Medical Supplies performed strongly in the USA market.

### *Neuroscan*

Neuroscan's revenue of \$9.6m was in line with company expectations. Comparisons with prior years have not been made, as the company was only acquired in April 2002.



### Neuroscience

The Neuroscience business with revenues of \$2.1m was a 51% improvement over the previous corresponding period. This primarily reflected the start up of this business in the USA, coupled with the continuing strength of our neurological diagnostic business in Australia.

### Neuro Medical Supplies

The Neuromedical supplies business is a combination of the electrodes, sensors and other consumable items business of both the Compumedics business and the Neuroscan business, as such comparisons with previous corresponding periods have not been made. This business has performed in line with expectations.

## DETAILS FROM EPS NOTE TO ACCOUNTS

### Earnings per Share

	Notes	2003 Cents	2002 Cents
Basic earnings per share	36	(13.3)	(1.4)
Diluted earnings per share	36	(13.3)	(1.4)
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	36	1.4	(0.5)
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	36	1.4	(0.5)

## 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 16 years. Chairman for 16 years.	Member of Remuneration Committee	89,761,608	292,645
Koichiro Koike	Non-executive Director for 4 years. Executive Director for 2 years.	Non-executive Director, Corporate Development	–	660,000
John Dyson	Non-executive Director for 7 years.	Chairman of Audit Committee	70,000	166,000
Prof Graham Mitchell	Non-executive Director for 2 years, 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 2 years, 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 2003, 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	8	12	–	–	–	–
John Dyson	12	12	4	4	–	–
Prof Graham Mitchell	11	12	–	–	1	1
Alan Anderson	11	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

Name	Directors' Base Fee \$	Superannuation \$	Total \$
John Dyson	35,000	–	35,000
Prof Graham Mitchell	30,023	2,477	32,500
Alan Anderson	45,000	–	45,000
Koike Koichiro	63,038	5,673	68,711

### Executive Directors of Compumedics Limited

Name	Base Salary \$	Motor Vehicle \$	Superannuation \$	Total \$
David Burton	330,000	–	–	330,000

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

## Executives – Consolidated entity

Name	Base salary \$	Motor Vehicle \$	Bonus \$	Superannuation \$	Other Benefits \$	Total \$
Stephen Sands	303,933	–	–	–	–	303,933
Daniel Moore	233,142	10,216	5,964	–	–	239,322
Warwick Freeman	155,741	27,515	–	13,855	–	197,111
David Lawson	175,634	–	–	15,807	–	191,441
Jeff Kuznia	160,083	10,216	17,833	–	–	188,132

## Executives – Parent entity

Name	Base salary \$	Motor Vehicle \$	Bonus \$	Superannuation \$	Other Benefits \$	Total \$
Warwick Freeman	155,741	27,515	–	13,855	–	197,111
David Lawson	175,634	–	–	15,807	–	191,441
Andrew Smith	164,076	–	–	13,831	–	177,907
David Loiterton	103,846	6,923	–	8,723	–	119,493

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

Options over unissued ordinary shares of Compumedics Limited granted and vesting 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/Vested	Exercise Price (\$)	Expiry Date	Price at Date of Grant/Vesting (\$)	Indicative Value (\$)
Alan Anderson	19,800 <sup>2</sup>	0.50	2005	0.235	580
David Burton	222,222 <sup>1</sup>	0.01	2007	0.225	42,277
John Dyson	49,800 <sup>2</sup>	0.50	2005	0.235	1,459
Koike Koichiro	198,000 <sup>2</sup>	0.50	2005	0.235	5,801
Graham Mitchell	19,800 <sup>2</sup>	0.50	2005	0.235	580

## Executives – Consolidated entity

Stephen Sands	–	–	–	–	–
Daniel Moore	66,000 <sup>2</sup>	0.50	2005	0.235	1,934
Warwick Freeman	198,000 <sup>2</sup>	0.50	2005	0.235	5,801
David Lawson	198,000 <sup>2</sup>	0.50	2005	0.235	5,801
Jeff Kuznia	66,000 <sup>2</sup>	0.50	2005	0.235	1,934

## Executives – Parent entity

Apart from Warwick Freeman and David Lawson none of the other executives of the parent entity were issued options during the course of the financial year. Warwick Freeman and David Lawson's allocations are noted above.

1 Options issued in lieu of bonus. 222,222 options, authorised on 21 December 2002, issued at 22.5 cents in lieu of a \$50,000 bonus.

2 The options vesting during the year are the second tranche of options related to the total options granted at IPO. Details are on page 26 of this report.

The options disclosed in the Directors' Report and Financial Statements have been valued by the Directors' as having no cost to the Company. The indicative value is based on valuing the options using the Black-Scholes model. The assumptions for the Black-Scholes model are:

- exercise price of the option is based on either listing price, or closing price on the day prior to issue, except where the options have been issued in lieu of a cash performance bonus, where the exercise price is one cent.
- life of the option is 5 years from the issue date. In valuing the options, only the remaining life of the option has been considered.
- the price of the underlying securities at 30 June 2003 was 35.5 cents. The price at the date of granting/vesting the option is disclosed for each option issued.
- the expected volatility of the share price is assumed at 30% and is based on the historical movements of the share price.
- risk free interest rate of 4.75%

### 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 (adjusted for retirements)	5,093,000	0.50	21 Dec 2005
New Issues for the year ended 30 June 2002	220,432	0.40 to 0.95	Various
New Issues for the year ended 30 June 2003	222,222	0.225	24 Dec 2007
<b>Total</b>	<b>5,535,645</b>	–	–

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  
12 September 2003

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. Following the release during the year of the ASX guidelines for corporate governance the Directors have instigated a review of the Company's current affairs and are presently assessing this information. The Directors will report on the outcomes of this process once it is complete.

## 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 assess 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 Alan Anderson had business dealings with the consolidated entity during the year, as described in note 31 to the financial statements.

The Directors are considering the ASX guidelines with regard independent directors and will report back to shareholders once this review is complete.

## 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 has developed 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 2003

	Notes	Consolidated		Parent entity	
		2003 \$	2002 \$	2003 \$	2002 \$
Revenue from sale of goods and services	3	32,056,143	19,747,259	19,942,295	17,045,169
Cost of sales		(14,169,621)	(7,967,160)	(9,772,444)	(6,853,301)
Gross profit		17,886,522	11,780,099	10,169,851	10,191,868
Other revenues from operating activities	3	381,664	464,033	345,964	464,033
Other expenses from operating activities					
Administration		(4,230,273)	(3,973,556)	(2,684,979)	(3,650,460)
Sales & Marketing		(6,266,996)	(4,907,365)	(2,478,187)	(4,642,006)
Research & Development		(6,707,590)	(2,853,957)	(5,666,323)	(1,622,136)
Service		(1,965,656)	(2,159,197)	(405,595)	(2,441,733)
Logistics		(647,946)	(393,471)	–	(393,471)
Borrowing costs	4	(187,123)	(102,031)	(161,495)	(63,730)
Accelerated Amortisation Charge	4b,13	(17,858,371)	–	(12,658,703)	–
Write-down of investment	4b,11	–	–	(7,083,050)	–
Net foreign exchange gain / (loss)	4	631,003	(349,948)	512,580	(349,948)
<b>Net loss from ordinary activities before income tax benefit</b>	<b>4</b>	<b>(18,964,766)</b>	<b>(2,495,393)</b>	<b>(20,109,757)</b>	<b>(2,507,583)</b>
Income tax benefit	5	408,106	597,620	253,299	781,218
Loss from ordinary activities after income tax benefit		(18,556,660)	(1,897,773)	(19,856,458)	(1,726,365)
Loss attributable to members of Compumedics Limited		(18,556,660)	(1,897,773)	(19,856,458)	(1,726,365)
Net Exchange Differences on translation of financial report of foreign controlled entity		–	(5,842)	–	–
Total changes in equity other than those resulting from transactions with owners as owners		(18,556,660)	(1,903,615)	(19,856,458)	(1,726,365)
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share	36	(13.3)	(1.4)		
Diluted earnings per share	36	(13.3)	(1.4)		
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	36	1.4	(0.5)		
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	36	1.4	(0.5)		

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

# Statements of Financial Position

AS AT 30 JUNE 2003

	Notes	Consolidated		Parent entity	
		2003 \$	2002 \$	2003 \$	2002 \$
<b>CURRENT ASSETS</b>					
Cash assets	6,25	5,366,091	8,533,299	4,775,066	8,404,018
Receivables	7	8,624,141	7,982,578	4,591,240	5,971,669
Inventories	8	8,416,224	8,519,863	4,996,382	6,157,434
Other	9	179,766	187,077	118,103	167,404
<b>Total Current Assets</b>		<b>22,586,222</b>	<b>25,222,817</b>	<b>14,480,792</b>	<b>20,700,525</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	10	–	105,798	5,123,381	4,008,479
Other financial assets	11	–	–	148,290	7,190,127
Property, plant and equipment	12	1,176,179	957,946	807,507	585,057
Intangible assets	13	–	17,337,576	–	11,305,672
<b>Non-Current Assets</b>		<b>1,176,179</b>	<b>18,401,320</b>	<b>6,079,178</b>	<b>23,089,672</b>
<b>Total Assets</b>		<b>23,762,401</b>	<b>43,624,137</b>	<b>20,559,970</b>	<b>43,789,860</b>
<b>CURRENT LIABILITIES</b>					
Payables	14	4,578,359	3,469,768	3,223,187	3,075,912
Interest bearing liabilities	15,25	4,728,980	5,198,204	4,777,778	5,396,612
Current tax liabilities	16	52,400	230,307	–	–
Provisions	17	845,349	577,259	502,477	577,259
Other current liabilities	18	1,216,630	328,081	430,008	328,081
<b>Total Current Liabilities</b>		<b>11,421,718</b>	<b>9,803,619</b>	<b>8,933,450</b>	<b>9,377,865</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	19,25	507,857	3,212,184	507,857	3,212,184
Deferred tax liabilities	20	–	253,299	–	253,299
Provisions	21	157,609	129,000	157,609	129,000
<b>Total Non-Current Liabilities</b>		<b>665,466</b>	<b>3,594,483</b>	<b>665,466</b>	<b>3,594,483</b>
<b>Total Liabilities</b>		<b>12,087,184</b>	<b>13,398,102</b>	<b>9,598,916</b>	<b>12,972,347</b>
<b>Net Assets</b>		<b>11,675,217</b>	<b>30,226,035</b>	<b>10,961,054</b>	<b>30,817,513</b>
<b>EQUITY</b>					
Contributed equity	22	29,147,006	29,147,006	29,147,006	29,147,006
Reserve	23	–	(5,842)	–	–
Retained profits / (accumulated losses)	24	(17,471,789)	1,084,871	(18,185,952)	1,670,507
<b>Total Equity</b>		<b>11,675,217</b>	<b>30,226,035</b>	<b>10,961,054</b>	<b>30,817,513</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 2003

	Notes	Consolidated		Parent entity	
		2003 \$	2002 \$	2003 \$	2002 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Receipts from customers (Inclusive of GST)		31,781,694	20,507,597	17,139,346	20,223,062
Payments to suppliers & employees (Inclusive of GST)		(29,020,527)	(21,326,129)	(14,966,526)	(21,233,537)
		2,761,167	(818,532)	2,172,820	(1,010,475)
Interest and other items of a similar nature		234,017	362,368	233,971	362,368
Other revenue		147,648	101,665	111,994	101,665
Interest and other costs of finance paid		(187,123)	(73,872)	(161,495)	(73,872)
Income taxes paid		–	(84,823)	–	(77,975)
Income tax refund		–	610,522	–	610,522
<b>Net cash inflow (outflow) from operating activities</b>	34	<b>2,955,709</b>	<b>97,328</b>	<b>2,357,290</b>	<b>(87,767)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for purchase of controlled entity net of cash acquired	32	(733,735)	(2,476,561)	(733,735)	(2,981,370)
Payments for property, plant and equipment		(770,711)	(373,178)	(634,037)	(256,843)
Payments for goodwill acquired		(19,579)	(488,489)	(19,579)	–
Payments for intellectual property costs		(3,948,159)	(2,930,703)	(3,948,159)	(2,930,703)
Receipts of grants for intellectual property		59,000	896,188	59,000	896,188
<b>Net cash inflow (outflow) from investing activities</b>		<b>(5,413,184)</b>	<b>(5,372,743)</b>	<b>(5,276,510)</b>	<b>(5,272,728)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		–	2,653,458	–	2,653,458
Repayments of finance leases		(132,089)	(167,702)	(132,088)	(167,702)
Share issue costs		–	(33,642)	–	(33,642)
Repayment of borrowings		(577,644)	(89,995)	(577,644)	(89,995)
<b>Net cash inflow (outflow) from financing activities</b>		<b>(709,733)</b>	<b>2,362,119</b>	<b>(709,732)</b>	<b>2,362,119</b>
<b>Net increase (decrease) in cash held</b>		<b>(3,167,208)</b>	<b>(2,913,296)</b>	<b>(3,628,952)</b>	<b>(2,998,376)</b>
Cash at the beginning of the financial year		8,533,299	11,446,595	8,404,018	11,402,394
<b>Cash Balance at the end of the financial year</b>	6	<b>5,366,091</b>	<b>8,533,299</b>	<b>4,775,066</b>	<b>8,404,018</b>

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.

## 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 2003 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. As described in Note 13 accelerated amortisation has been applied in 2003.

#### (ii) Patents and trademarks

Significant costs associated with patents and trademarks are charged to operating profit before tax as incurred or deferred and amortised on a straight line basis over the periods which the benefits are expected to be realised. As described in Note 13 accelerated amortisation has been applied in 2003.

#### (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. As described in Note 13 accelerated amortisation has been applied in 2003.

#### (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. As described in Note 13 accelerated amortisation has been applied in 2003.

### (d) Revenue recognition – change of accounting treatment

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

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

The impact of this change on the current year results was \$0.9m reduction to revenue and \$0.9m reduction to profit after tax.

The impact of this change had it been applied in the previous corresponding period ending 30 June 2002 would have been a reduction of revenue by \$0.4m and a \$0.3m increase in losses after tax.

(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) **Recoverable amount of non-current assets**

The directors have reviewed the value of property, plant and equipment as reported in the statement of financial position and consider these to be the recoverable value of these assets.

(h) **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.

(i) **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 expected to be paid when the liabilities are settled 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.

(j) **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.

(k) **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.

(l) **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 the controlled entities are integrated (Compumedics USA Inc, Compumedics USA Ltd, formerly Neuroscan Ltd 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 or average rates of exchange for the year, 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.

On acquisition of the Neuroscan business which is operated through Compumedics USA Ltd (formerly Neuroscan Ltd) and for the purposes of the June 30 2002 accounts Compumedics USA Ltd was treated as self sustaining. In the current year the Compumedics USA Ltd entity is considered to be integrated and is accounted for as explained above. If Compumedics USA Ltd had been accounted for on the same basis in the 30 June 2002 accounts the amount of \$5,842 taken to the translation reserve would have been treated as an expense item.

*(m) Directors' and Executive Remuneration*

Directors and Executives remuneration disclosed in the financial statements excludes monetary amounts for options granted. However, an indicative valuation/cost is included in the Director's report. Such costs will be included in remuneration once final guidelines have been released.

*(n) 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. The life of the lease is four years.

*(o) 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.

*(p) 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

2003

	Sleep	Neuroscan	Neuro- science	Neuro Medical Supplies	Elimination	Consolidated
	\$	\$	\$	\$	\$	\$
Sales to external customers	17,676,922	9,648,760	2,138,731	2,591,730		32,056,143
Intersegment sales						–
Total sales revenue	17,676,922	9,648,760	2,138,731	2,591,730	–	32,056,143
Other revenue	81,410	44,446	9,852	11,939		147,647
Total segment revenue	17,758,332	9,693,206	2,148,583	2,603,669	–	32,203,790
Segment result	(6,179,070)	(7,121,247)	(5,777,594)	623,746	(557,478)	(19,011,643)
Interest income						46,877
Tax benefit						408,106
Net Loss after interest and tax						(18,556,660)
Segment assets	10,259,145	3,559,914	858,327	2,362,980	–	17,040,366
Unallocated assets						6,722,035
Tax assets						–
Total assets						23,762,401
Segment liabilities	4,020,263	6,335,945	305,460	370,159	–	11,031,827
Unallocated liabilities						1,055,357
Tax liabilities						–
Total liabilities						12,087,184
Net assets						11,675,217
Acquisition of property, plant and equipment	–	–	–	–		770,711
Acquisition of intangibles and other non-current segment assets	2,762,888	1,126,271	–	–		3,889,159
Depreciation and amortisation expense	9,726,904	4,188,284	6,251,639	190,000	557,478	20,914,306
Other non-cash expenses	–	–	–	–	–	–

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

Primary Reporting - Business Segments

2002

	Sleep	Neuroscan	Neuro- science	Neuro Medical Supplies	Elimination	Consolidated
	\$	\$	\$	\$	\$	\$
Sales to external customers	12,633,482	2,702,090	1,414,242	2,997,445		19,747,259
Intersegment sales						–
Total sales revenue	12,633,482	2,702,090	1,414,242	2,997,445	–	19,747,259
Other revenue	101,665	–	–	–		101,665
Total segment revenue	12,735,147	2,702,090	1,414,242	2,997,445	–	19,848,924
Segment result	(2,400,003)	476,040	(268,666)	(569,429)	6,328	(2,755,730)
Interest						260,337
Tax benefit						597,620
Net Profit/(Loss) after interest and tax						(1,897,773)
Segment assets	18,103,997	7,104,071	7,188,347	2,694,583		35,090,998
Unallocated assets						8,533,139
Tax assets						–
Total assets						43,624,137
Segment liabilities	3,667,886	8,055,253	438,941	930,323		13,092,403
Unallocated liabilities						–
Tax liabilities						305,699
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	2,174,856	4,753,684	–	–		6,928,540
Depreciation and amortisation expense	1,053,234	79,018	832,185	–		1,964,437
Other non-cash expenses	1,139,919	–	–	–		1,139,919

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

### Secondary Reporting - Geographical Segments

2003	USA	Rest of World	Eliminations	Consolidated Amount
	\$	\$	\$	\$
Sales to external customers	16,189,810	15,866,333		32,056,143
Intersegment sales	1,632,303	4,076,767	(5,709,070)	–
Total sales revenue	17,822,113	19,943,100	(5,709,070)	32,056,143
Segment Assets	8,262,001	20,623,781	(5,123,381)	23,762,401
Tax assets				–
Total assets				23,762,401
Acquisition of property, plant and equipment	111,987	658,724		770,711
Acquisition of intangibles and other non-current segment assets	–	3,889,159		3,889,159

### Secondary Reporting - Geographical Segments

2002	USA	Rest of World	Eliminations	Consolidated Amount
	\$	\$	\$	\$
Sales to external customers	9,156,415	10,590,844		19,747,259
Intersegment sales	132,880		(132,880)	–
Total sales revenue	9,289,295	10,590,844	(132,880)	19,747,259
Segment Assets	8,255,867	39,761,168	(4,392,898)	43,624,137
Tax assets				–
Total assets				43,624,137
Acquisition of property, plant and equipment	279,502	350,230		629,732
Acquisition of intangibles and other non-current segment assets	–	6,928,540		6,928,540

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

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

The consolidated entity operates in four industry markets that being research, development, manufacture and distribution of sleep diagnostics equipment (Sleep), brain research equipment (Neuroscan), neuro diagnostics equipment (Neuroscience) and neuro medical supplies.

#### (b) Geographical segments

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

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 3. REVENUE</b>				
<b>REVENUE FROM OPERATING ACTIVITIES</b>				
Sale of goods	31,298,967	18,944,665	19,210,029	16,242,575
Services	757,176	802,594	732,266	802,594
	32,056,143	19,747,259	19,942,295	17,045,169
<b>REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES</b>				
Interest	234,017	362,368	233,970	362,368
Government grants	98,713	75,463	98,713	75,463
Net foreign exchange gain	631,003	–	512,580	–
Other	48,935	26,202	13,281	26,202
	1,012,668	464,033	858,544	464,033
<b>Revenue from ordinary activities</b>	<b>33,068,811</b>	<b>20,211,292</b>	<b>20,800,839</b>	<b>17,509,202</b>

#### NOTE 4. PROFIT FROM ORDINARY ACTIVITIES

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

##### NET GAINS

Net foreign exchange gain	631,033	–	512,580	–
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##### EXPENSES

Depreciation – plant and equipment	552,478	422,664	411,587	422,664
Amortisation – intellectual property, patents, trademarks and goodwill	20,361,828	1,541,773	14,329,923	687,892
Write-down of investment	–	–	7,083,050	–
Write off of leasehold improvements	–	71,446	–	71,446
Provision for inventory obsolescence	255,733	739,416	255,733	739,416
Provision for doubtful trade debtors	30,491	393,688	90,654	466,787
Borrowing costs	187,123	102,031	161,495	63,730
Employee entitlement provisions	456,835	161,193	259,330	161,193
Service warranty provisions	131,462	6,815	77,659	6,815
Operating leases – minimum lease payments	707,060	260,498	410,468	205,573
Net foreign exchange loss	–	349,948	–	349,948

(b) Individually significant items:

##### (i) Write-down of intangible assets

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

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



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

*(ii) Write-down of intangible assets and goodwill acquired*

Applying the same analysis as for R&D expenditure capitalised, the reality remains that the business is not generating cash inflows from operations after R&D expenditure. The Directors therefore believe, in assessing carrying value at 30 June 2003, it to be prudent to write the values of these assets off in the current financial period. This has resulted in a pre and post tax charge to the statement of financial performance of \$8.6 million in the consolidated entity and a pre and post tax charge of \$3.4 million in the company.

*(iii) Provision for diminution in investment*

Applying the same analysis as above, the parent entity has provided in full against its investment in Compumedics Telemed Pty Ltd, resulting in a pre and post tax charge to the statement of financial performance of \$7.1 million.

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<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:				
Loss from ordinary activities before income tax expense / (benefit)	(18,964,766)	(2,495,393)	(20,109,757)	(2,507,583)
Income tax calculated @ 30%	(5,689,430)	(748,618)	(6,032,927)	(752,275)
Tax effect of permanent differences				
25 % Non-grant R & D loading / allowance	(248,484)	( 58,509)	(248,484)	(58,509)
Non-deductible entertainment expenses	8,514	4,010	8,514	4,010
Other Non-deductible permanent differences	(35,527)	(19,111)		
Overseas profits taxed at higher rates	–	12,663	–	–
Non-deductible amortisation	–	215,212		–
Non-deductible intellectual property write-down	2,591,352	–	3,147,313	–
Timing differences not brought to account (note a)	864,162	–	573,229	–
Current tax losses not brought to account (note a)	1,568,021	–	1,537,074	–
Write off tax losses previously brought to account (note a)	670,586	–	670,586	–
Income tax adjusted for permanent differences	(270,806)	(594,353)	(344,695)	(806,774)
Under (over) provision in previous year	(137,300)	(3,267)	91,396	25,556
Aggregate income tax (benefit)	(408,106)	(597,620)	(253,299)	(781,218)
Aggregate income tax (benefit) comprises:				
Current taxation provision	–	230,307	–	–
Net deferred tax asset not brought to account (a)	(270,806)	–	(344,695)	–
Deferred income tax provision	–	(824,660)	–	(806,774)
Under (over) provision in prior year	(137,300)	(3,267)	91,396	25,556
Income tax (benefit)	(408,106)	(597,620)	(253,299)	(781,218)

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 5. INCOME TAX EXPENSE (CONTINUED)</b>				
(a) The benefit will only be obtained if:				
(i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised				
(ii) the company continues to comply with the conditions for deductibility imposed by tax legislation, and				
(iii) no change in tax legislation adversely affect the company in realising the benefit from the deductions for the loss.				
<b>NOTE 6. CURRENT ASSETS — CASH ASSETS</b>				
Cash at Bank and on deposit	5,366,091	8,533,299	4,775,066	8,404,018
The above figures are as noted in the statements of cash flows.				
<b>NOTE 7. CURRENT ASSETS — RECEIVABLES</b>				
Trade debtors	9,096,332	8,537,791	4,489,602	6,253,116
Less: Provision for doubtful debts	(712,936)	(781,860)	(92,417)	(781,860)
	8,383,396	7,755,931	4,397,185	5,471,256
Other debtors	240,745	42,804	194,055	42,804
Amounts owing from controlled entities	—	—	—	273,766
Receivable from Director related parties	—	183,843	—	183,843
<b>TOTAL</b>	<b>8,624,141</b>	<b>7,982,578</b>	<b>4,591,240</b>	<b>5,971,669</b>
<b>NOTE 8. CURRENT ASSETS — INVENTORIES</b>				
Raw materials – at cost	5,704,854	3,333,860	3,178,899	3,333,860
Work in progress – at cost	394,348	414,542	392,888	414,542
Finished goods – at cost	3,906,852	6,200,919	2,933,935	3,838,490
Less: Provision for obsolescence	(1,589,830)	(1,429,458)	(1,509,340)	(1,429,458)
<b>TOTAL</b>	<b>8,416,224</b>	<b>8,519,863</b>	<b>4,996,382</b>	<b>6,157,434</b>
<b>NOTE 9. CURRENT ASSETS — OTHER</b>				
Prepayments	101,791	109,102	40,128	89,429
Income tax refund receivable	77,975	77,975	77,974	77,975
<b>TOTAL</b>	<b>179,766</b>	<b>187,077</b>	<b>118,103</b>	<b>167,404</b>
<b>NOTE 10. NON-CURRENT ASSETS — RECEIVABLES</b>				
Trade debtors	—	105,798	—	105,798
Amounts owing from controlled entities	—	—	5,123,381	3,902,581
<b>TOTAL</b>	<b>—</b>	<b>105,798</b>	<b>5,123,381</b>	<b>4,008,479</b>

	Consolidated		Parent entit	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 11. NON CURRENT ASSETS — OTHER FINANCIAL ASSETS</b>				
Shares in controlled entities – at cost (note 32)	–	–	7,231,340	7,190,127
Less provision for diminution			(7,083,050)	–
<b>TOTAL</b>	<b>–</b>	<b>–</b>	<b>148,290</b>	<b>7,190,127</b>
<b>NOTE 12. NON-CURRENT ASSETS — PROPERTY, PLANT &amp; EQUIPMENT</b>				
<b>PLANT &amp; EQUIPMENT</b>				
Plant & Equipment at cost	543,005	544,208	440,408	428,597
Less: Accumulated depreciation	(377,889)	(289,790)	(342,123)	(294,634)
	165,116	254,418	98,285	133,963
Plant & Equipment under finance lease	212,054	212,052	212,054	212,052
Less: Accumulated depreciation	(204,825)	(157,234)	(204,825)	(157,234)
	7,229	54,818	7,229	54,818
<b>MOTOR VEHICLES</b>				
Motor vehicles at cost	132,948	116,277	45,436	45,436
Less: Accumulated depreciation	(64,448)	(50,280)	(45,436)	(45,436)
	68,500	65,997	–	–
<b>OFFICE EQUIPMENT</b>				
Office Equipment at cost	1,345,795	1,094,629	1,069,772	908,192
Less: Accumulated depreciation	(785,400)	(594,061)	(742,718)	(594,061)
	560,395	500,568	327,054	314,131
Office Equipment under finance lease	328,000	328,000	328,000	328,000
Less: Accumulated depreciation	(328,000)	(245,855)	(328,000)	(245,855)
	–	82,145	–	82,145
<b>LEASEHOLD IMPROVEMENTS</b>				
Leasehold Improvements at cost	460,643	–	460,643	–
Less: Accumulated depreciation	(85,704)	–	( 85,704)	–
	374,939	–	374,939	–
<b>TOTAL</b>	<b>1,176,179</b>	<b>957,946</b>	<b>807,507</b>	<b>585,057</b>

## NOTE 12. NON-CURRENT ASSETS — PROPERTY, PLANT &amp; 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:

	Plant and Equipment	Plant and Equipment Leased	Motor Vehicle	Office Equipment	Office Equipment Leased	Leasehold Improvements	Total
<b>Consolidated</b>	\$	\$	\$	\$	\$	\$	
Carrying amount at 1 July 2002	254,418	54,818	65,997	500,568	82,145	–	957,946
Additions	19,828	2	16,670	273,568	–	460,643	770,711
Depreciation/amortisation expense (Note4(a))	(109,130)	(47,591)	(14,107)	(213,741)	(82,145)	(85,704)	(552,478)
Carrying amount at 30 June 2003	165,116	7,229	68,500	560,395	–	374,939	1,176,179
	Plant and Equipment	Plant and Equipment Leased	Motor Vehicle	Office Equipment	Office Equipment Leased	Leasehold Improvements	Total
<b>Parent</b>	\$	\$	\$	\$	\$	\$	
Carrying amount at 1 July 2002	133,965	54,818	–	314,131	82,145	–	585,057
Additions	11,811	2	–	161,581	–	460,643	634,037
Depreciation/amortisation expense (Note4(a))	(47,489)	(47,591)	–	(148,658)	(82,145)	(85,704)	(411,587)
Carrying amount at 30 June 2003	98,285	7,229	–	327,054	–	374,939	807,507

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 13. NON-CURRENT ASSETS — INTANGIBLE ASSETS</b>				
Deferred development expenditure at cost	13,731,915	10,359,795	13,692,096	10,319,976
Less: Accumulated amortisation	(5,436,397)	(4,298,889)	(5,397,055)	(4,292,738)
Less: Accelerated amortisation	(8,295,518)	–	(8,295,041)	–
	–	6,060,906	–	6,027,238
Patents, trademarks & licences at cost	1,360,245	843,207	1,360,245	843,207
Less: Accumulated amortisation	(398,001)	(240,611)	(398,001)	(240,611)
Less: Accelerated amortisation	(962,244)	–	(962,244)	–
	–	602,596	–	602,596
Neuroscan intellectual property on acquisition at cost	–	–	3,472,864	4,357,350
Less: Accumulated amortisation	–	–	(508,354)	(72,622)
Less: Accelerated amortisation	–	–	(2,964,510)	–
	–	–	–	4,284,728
Neuroscan acquisition costs	–	–	417,317	397,738
Less: Accumulated amortisation	–	–	(46,380)	(6,628)
Less: Accelerated amortisation	–	–	(370,937)	–
	–	–	–	391,110
Intellectual property on acquisition at cost	10,646,548	11,531,034	–	–
Less: Accumulated amortisation	(2,482,849)	(1,329,745)	–	–
Less: Accelerated amortisation	(8,163,699)	–	–	–
	–	10,201,289	–	–
Goodwill on acquisition at cost	508,068	488,488	–	–
Less: Accumulated amortisation	(71,158)	(15,703)	–	–
Less: Accelerated amortisation	(436,910)	–	–	–
	–	472,785	–	–
<b>TOTAL</b>	–	<b>17,337,576</b>	–	<b>11,305,672</b>

#### Research and development expenditure

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

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

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

**Intellectual property acquired and goodwill**

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

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 14. CURRENT LIABILITIES — PAYABLES</b>				
Trade creditors	3,546,866	2,154,693	2,607,168	1,761,775
Other payables	1,031,493	1,165,465	375,460	1,165,465
Payable to controlled entities	—	—	240,559	148,672
Payable to Director related parties	—	149,610	—	—
<b>TOTAL</b>	<b>4,578,359</b>	<b>3,469,768</b>	<b>3,223,187</b>	<b>3,075,912</b>

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

Concessional loan (unsecured)	339,360	169,680	339,360	169,680
Bank loan (secured)	1,876,466	2,653,458	1,876,466	2,653,458
Neuroscan acquisition cost payable to the Marmon group (unsecured)	2,492,118	2,211,215	2,492,118	2,211,215
Lease liability (note 29) (secured)	21,036	163,851	21,036	163,851
Payable to controlled entities (unsecured)	—	—	48,798	198,408
<b>TOTAL</b>	<b>4,728,980</b>	<b>5,198,204</b>	<b>4,777,778</b>	<b>5,396,612</b>

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

**NOTE 16. CURRENT LIABILITIES — CURRENT TAX LIABILITIES**

Provision for taxation	52,400	230,307	—	—
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**NOTE 17. CURRENT LIABILITIES — PROVISIONS**

Provisions – annual leave	541,072	404,444	343,567	404,444
Provisions – warranties	304,277	172,815	158,910	172,815
<b>TOTAL</b>	<b>845,349</b>	<b>577,259</b>	<b>502,477</b>	<b>577,259</b>

**NOTE 18. CURRENT LIABILITIES — OTHER**

Revenue in Advance	1,216,630	328,081	430,008	328,081
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**NOTE 19. NON-CURRENT LIABILITIES — INTEREST BEARING LIABILITIES**

Concessional loan (unsecured)	486,068	795,320	486,068	795,320
Lease liability (note 29) (secured)	21,789	11,062	21,789	11,062
Neuroscan acquisition cost payable to the Marmon Group (unsecured)	—	2,405,802	—	2,405,802
<b>TOTAL</b>	<b>507,857</b>	<b>3,212,184</b>	<b>507,857</b>	<b>3,212,184</b>

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 20. NON-CURRENT LIABILITIES — DEFERRED TAX LIABILITIES</b>				
Provision for deferred income tax	–	253,299	–	253,299

#### NOTE 21. NON-CURRENT LIABILITIES — PROVISIONS

Provisions – long service leave	157,609	129,000	157,609	129,000
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	Parent and consolidated			
	2003 Number	2002 Number	2003 \$	2002 \$
<b>NOTE 22. CONTRIBUTED EQUITY</b>				
Issued and paid up capital	140,000,000	140,000,000	29,147,006	29,147,006

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

Date	Details	Notes	Number of shares	Issue price \$	\$
01-07-2001	Balance		140,000,000		29,180,648
	Less: Transaction costs arising on prior year share issues	(b)			(33,642)
30-06-2002	Balance		140,000,000		29,147,006
	Nil movement in current year				
30-06-2003	Balance		140,000,000		29,147,006

#### (b) Share issue costs

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

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 23. RESERVE</b>				
Foreign translation reserve	–	(5,842)	–	–

#### Foreign currency translation reserve

Compumedics USA Ltd (formerly Neuroscan Ltd) was previously treated as a self sustaining entity at 30 June 2002.. This was reassessed during the current year and Neuroscan was classified as an integrated entity. As a result the opening reserve has been transferred to retained profits.

#### NOTE 24. RETAINED PROFITS

Retained profits at the beginning of the financial year	1,084,871	2,982,644	1,670,506	3,396,871
Net profit (loss) attributable to members of Compumedics Limited	(18,556,660)	(1,897,773)	(19,856,458)	(1,726,365)
<b>Retained profits / (accumulated losses) at the end of the financial year</b>	<b>(17,471,789)</b>	<b>1,084,871</b>	<b>(18,185,952)</b>	<b>1,670,506</b>

## 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.

		Weighted average interest rate	Fixed/ floating	1 year or less	Over 1 to 5 years	Total
2003	Notes	%		\$	\$	\$
<b>FINANCIAL ASSETS</b>						
Cash at bank	6	2.00	Fixed	2,007,185	–	2,007,185
On Term Deposit	6	4.35	Floating	3,358,906	–	3,358,906
<b>Total</b>				<b>5,366,091</b>	<b>–</b>	<b>5,366,091</b>
<b>FINANCIAL LIABILITIES</b>						
Concessional loans	15,19	3.2	Fixed	339,360	486,068	825,428
Lease liabilities	15,19	9.8	Fixed	21,036	21,789	42,825
Bank loan (secured)	15	4.5	Fixed	1,876,466	–	1,876,466
Payable to the Marmon group	15,19	4.0	Fixed	2,492,118	–	2,492,118
<b>Total</b>				<b>4,728,980</b>	<b>507,857</b>	<b>5,236,837</b>
Net interest bearing financial assets (liabilities)				637,111	(507,857)	129,254
<b>2002</b>						
	Notes	Weighted average interest rate	Fixed/ floating	1 year or less	Over 1 to 5 years	Total
		%		\$	\$	\$
<b>FINANCIAL ASSETS</b>						
Cash at bank	6	2.00	Fixed	1,230,881	–	1,230,881
On Term Deposit	6	4.75	Floating	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	Fixed	169,680	795,320	965,000
Lease liabilities	15,19	9.8	Fixed	163,851	11,062	174,913
Bank loan (secured)	15	4.5	Fixed	2,653,458	–	2,653,458
Payable to the Marmon group	15,19	4.0	Fixed	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

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. Other financial assets and liabilities include current assets-receivables (note 7) and current liabilities-payable (note 14).



**NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)****(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.

**Forward exchange contracts**

The USA operations sell products into the USA market in US dollars. 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	
	2003 \$	2002 \$	2003 \$	2002 \$
	511,211	580,805	511,211	580,805

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
<b>2002</b>	90,423	–	1,048,423
<b>2003</b>	222,222	–	1,270,645

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

\$	2003	2002
30,000 – 39,999	2	3
40,000 – 49,999	1	–
60,000 – 69,999	1	–
180,000 – 189,999	–	1
290,000 – 299,999	–	1
330,000 – 339,999	1	–

## 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:

	Executive Officers of the consolidated entity		Executive Officers of parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
Executive officers of the parent entity	1,015,952	993,060	1,015,952	993,060

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.

	Granted	Exercised	Outstanding
2002	90,000	–	1,410,000
2003	–	–	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:

\$	Executive Officers of the consolidated entity		Executive Officers of parent entity	
	2003	2002	2003	2002
110,000 – 119,999	1	–	1	–
130,000 – 139,999	–	1	–	1
170,000 – 179,999	1	1	1	1
180,000 – 189,999	–	1	–	1
190,000 – 199,999	2	–	2	–
200,000 – 209,999	–	1	–	1
290,000 – 299,999	–	1	–	1
330,000 – 339,999	1	–	1	–

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$

## 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	100,000	141,690	100,000	141,690
Taxation	13,237	92,291	11,460	92,291
Other advisory services	–	23,210	–	23,210
<b>Total</b>	<b>113,237</b>	<b>257,191</b>	<b>111,460</b>	<b>257,191</b>

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 29. COMMITMENTS FOR EXPENDITURE</b>				
<b>OPERATING LEASES</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	760,273	427,489	437,000	391,083
Later than one year but not later than 5 years	2,280,464	1,515,774	983,250	1,420,250
Commitments not recognised in the financial statements	3,040,737	1,943,263	1,420,250	1,811,333
<b>FINANCE LEASES</b>				
Commitments in relation to finance leases are payable as follows:				
Within one year	23,550	173,905	23,550	173,905
Later than one year but not later than 5 years	23,783	13,290	23,783	13,290
Minimum lease payments	47,333	187,195	47,333	187,195
Less: Future finance charges	(4,508)	(12,282)	(4,508)	(12,282)
<b>Total</b>	<b>42,825</b>	<b>174,913</b>	<b>42,825</b>	<b>174,913</b>
Representing lease liabilities:				
Current (note 15)	21,036	163,851	21,036	163,851
Non-current (note 19)	21,789	11,062	21,789	11,062
<b>Total</b>	<b>42,825</b>	<b>174,913</b>	<b>42,825</b>	<b>174,913</b>
<b>NOTE 30. EMPLOYEE ENTITLEMENTS</b>				
Provision for employee entitlements				
Current (note 17)	541,072	404,444	343,567	404,444
Non-current (note 21)	157,609	129,000	157,609	129,000
Aggregate employee entitlement liability	698,681	533,444	501,176	533,444
<b>Employee numbers</b>				
		<b>Number</b>	<b>Number</b>	
Average number of employees during the financial year	135	75	68	47

#### 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 5,535,645 options are on hand as at 30 June 2003. 5,093,000 relate to options issued on 21 December 2000. A total of 222,222 options were issued on 24 December 2002 at a fixed price of 23 cents per share equivalent to the closing share price on the day immediately prior to issue. No options have been exercised at 30 June 2003. During the year 95,000 options lapsed that related to options issued on 21 December 2000.

The market price per ordinary share at 30 June 2003 was 35.5 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 2003 no options had been converted. All options expire five years after date of grant.

## 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:

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
Trade Debtors	–	183,843	–	183,843

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:

	2003 Number	2002 Number
Ordinary shares	89,856,608	90,770,710
Options over ordinary shares	1,270,646	1,048,423

### 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. In October 2002 the business moved to new premises. These premises are owned by a third party 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 have been reimbursed in full.

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

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
Aggregate amounts of each of the above types of other transactions with Directors and their Director-related entities:				
Rent paid or payable	–	126,667	–	126,667
Legal fees paid or payable	459,970	511,295	459,970	511,295
Aggregate amounts payable to Directors and their Director-related entities at balance date:				
Payable to Director related parties	–	149,610	–	–
Aggregate amounts receivable from Directors and their Director related entities at balance date:				
Receivable from Director related parties	–	183,843	–	183,843

### 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, Compumedics USA Ltd (formerly Neuroscan Ltd.), Compumedics Germany GmbH., and Compumedics Singapore Pte Ltd. Ownership interests in these controlled entities are set out in note 32.

Transactions between Compumedics Limited and other entities in the wholly owned group during the years ended 30 June 2003 and 2002 consisted of:

- (a) Loans advanced by Compumedics Limited
- (b) Loans repaid to Compumedics Limited
- (c) Sales between group entities are at a cost that is representative of a third party distribution arrangement.
- (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.
- (e) Recharge of research and development spend in Compumedics USA Ltd to Compumedics Limited.

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	
			2003 %	2002 %	2003 \$	2002 \$
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	100	106,872	106,872
Compumedics USA Ltd. (formerly Neuroscan Ltd.)	USA	Ordinary	100	100	199	199
Compumedics Germany GmbH.	Germany	Ordinary	100	–	41,213	–
					7,231,340	7,190,127
Less: provision for diminution					(7,083,050)	–
<b>TOTAL</b>					<b>148,290</b>	<b>7,190,127</b>

**NOTE 32. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)****Acquisition of controlled entities**

On 3 September 2002 Compumedics registered under N°B84736 at the Hamburg Local Court the name of Compumedics Germany GmbH for the contributed sum of \$41,213 (€25,000 Euro).

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
<b>TOTAL</b>	<b>7,093,578</b>

During 2003 it was determined that contingent consideration of US\$500,000 (\$884,486 at time of acquisition) related to the purchase of Neuroscan would not be payable. The intellectual property on acquisition has been reduced accordingly.

Due to exchange movements and the deferral of US\$750,000 of the amount payable on 23 April 2003, the remaining amount payable to Marmon Group by 23 April 2004 is \$2,492,118 (US\$1,660,000).

**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.

	Consolidated		Parent entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>NOTE 34. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES</b>				
Profit / (Loss) from ordinary activities after income tax	(18,556,660)	(1,897,773)	(19,856,458)	(1,726,365)
Depreciation & Amortisation	20,914,306	1,964,437	14,852,503	1,110,556
Write-down of investment	–	–	7,083,050	–
Write off of leasehold improvements	–	71,446	–	71,446
Net unrealised exchange differences	(779,125)	405,300	(779,125)	405,300
Doubtful Debts	(68,924)	393,688	(689,443)	466,787
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY</b>				
Decrease (Increase) in trade debtors & bills of exchange	(268,900)	238,140	832,455	2,522,815
Decrease (Increase) in inventories	103,639	(898,028)	1,161,052	(1,192,171)
Decrease (Increase) in income tax receivables	–	532,547	–	532,547
Decrease (Increase) in other operating assets	(190,630)	167,283	130,602	(987,756)
(Decrease) Increase in trade creditors	2,308,279	(704,186)	1,109,860	(885,670)
(Decrease) Increase in other operating liabilities	(377,611)	276,046	(1,187,734)	172,712
(Decrease) Increase in provision for income taxes payable	(177,907)	181,912	–	–
(Decrease) Increase in provision for deferred income tax	(253,299)	(775,515)	(253,299)	(725,976)
(Decrease) Increase in other provisions	302,541	142,031	(46,173)	148,008
Net Cash Inflow / (Outflow) from Operating Activities	2,955,709	97,328	2,357,290	(87,767)

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

During 2003 it was determined that contingent consideration of US\$500,000 (\$884,486 at time of aquisition) related to the purchase of Neuroscan would not be payable. The intellectual property on aquisition has been reduced accordingly.

## NOTE 36. EARNING PER SHARE

	Consolidated	
	2003 cents	2002 cents
Basic earnings per share	(13.3)	(1.4)
Diluted earnings per share	(13.3)	(1.4)
Basic earnings per share based on earnings before interest, tax, depreciation and amortisation	1.4	(0.5)
Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation	1.4	(0.5)

	Consolidated	
	2003 Number	2002 Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share.	140,000,000	140,000,000
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share based on earnings before interest, tax, depreciation and amortisation.	140,073,459	140,000,000

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

The numerator used in calculation of both Basic EPS and Diluted EPS is a loss of 18,556,660 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

	Consolidated	
	2003 \$	2002 \$
Profit / (Loss) from ordinary activities after income tax expense.	(18,556,660)	(1,897,773)
Amortisation of intellectual property	2,503,457	1,541,773
Accelerated amortisation of intellectual property	17,858,371	–
Depreciation	552,478	422,664
Interest Expense	187,123	102,031
Interest revenue	(234,017)	(233,970)
Tax benefits	(408,106)	(597,620)
	1,902,646	(662,895)

### 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 effect of options with an exercise price below the average market price for the year of 29 cents have been included in the calculation of diluted earnings per share based on earnings before interest, tax, depreciation and amortisation. The options have not been included in the determination of basic earnings per share. Details of options are set out in Note 30.



## Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2003

The Directors declare that the financial statements and notes set out on pages 29 to 54:

- (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 2003 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

12 September 2003

# Independent Audit Report

TO THE MEMBERS OF COMPUMEDICS LIMITED

**PRICEWATERHOUSECOOPERS**

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COMPUMEDICS LIMITED

### AUDIT OPINION

In our opinion, the financial report of Compumedics Limited

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Compumedics Limited and the Compumedics Group (defined below) as at 30 June 2003, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

### SCOPE

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Compumedics Limited ("the company") and the Compumedics Group ("the consolidated entity"), for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

#### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

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

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

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

#### Independence

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

PricewaterhouseCoopers

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PricewaterhouseCoopers

S. C. Bannatyne  
Partner

Melbourne  
12 September 2003

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is as at 2nd September, 2003.

### SHAREHOLDINGS

#### Substantial Shareholders

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>%</b>
D & DJ Burton Holdings Pty Ltd and associated entities	89,761,608	64.1
Teijin Limited	8,293,698	5.9
NJI No 2 Investment/C	6,796,346	4.9
<b>Total</b>		<b>74.9</b>

D & DJ Burton Holdings Pty Ltd hold Compumedics shares totalling 87,761,608 and Electro Molecular Pty Ltd hold Compumedics share totalling 2,000,000. These entities are both 100% owned by the Burton Family.

#### *Distribution of Shareholders*

<b>Category</b>	<b>Number of shareholders</b>
1 – 1,000	143
1,001 – 5,000	694
5,001 – 10,000	447
10,001 – 100,000	427
100,001 – over	46
<b>Total</b>	<b>1,757</b>

154 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	5,535,645	67

## TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	%
D & DJ Burton Holdings Pty Ltd	87,761,608	62.7
Teijin Limited	8,293,698	5.9
NJI No. 2 Investment/C	6,796,346	4.9
JADT Limited	2,265,436	1.7
Electro Molecular Pty Ltd	2,000,000	1.4
Sandhurst Trustees Ltd	1,649,300	1.2
Diversified United Investment	1,000,000	0.7
Mondo Electronics Pty Ltd	802,000	0.6
Lost Ark Nominees Pty Ltd	768,625	0.5
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
Merrill Lynch (Australia) Nominees Ltd	650,000	0.5
Mr. Paul Henry Golding	500,000	0.4
Mr. Lance Peter Thomas	419,801	0.3
Mr. Ken Whitton	415,801	0.3
Mr. John Dennis Tilton + Mrs. Debbie Tilton	411,190	0.3
Blackwood Amber Pty Limited	378,000	0.3
Hawkins & Birthwright Limited	350,000	0.3
Mrs. Joan Elaine Steel	340,000	0.2

The 20 largest shareholders hold 83.6% of the ordinary shares of the Company

When used in this Annual Report, the following defined terms have the meanings indicated below unless the context otherwise requires.

Terms not included in the glossary are used in accordance with their definition in the Concise Oxford Dictionary.

## Glossary of Defined Terms

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

**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 Operating Officer**

Mr Andrew Smith

**Chief Technology Officer**

Mr Warwick Freeman

**Chief Financial Officer**

Mr David Lawson

**Vice President American Sales  
and Global Marketing**

Mr Dan Moore

**General Manager Sales  
& Marketing, AsiaPacific and Europe**

Mr David Loiterton

**PRINCIPAL REGISTERED  
OFFICE IN AUSTRALIA**

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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.





‘Defining *life’s* signals’

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