

# **COMPUMEDICS LIMITED**

(ACN 006 854 897)

## **ASX Half-year information – 31 December 2006**

Lodged with the ASX under Listing Rule 4.2A.3

This information should be read in conjunction with the  
30 June 2006 Annual Report.

### **Contents**

Results for Announcement to the Market <i>(Appendix 4D item 2)</i>	2
Half year report <i>(ASX Listing rule 4.2A1)</i>	4
Supplementary Appendix 4D Information <i>(Appendix 4D items 3 to 9)</i>	20

**Compumedics Limited**  
**Half Year ended 31 December 2006**  
(Previous corresponding period:  
Half Year ended 31 December 2005)

**Results for Announcement to the Market**

				<b>\$'000</b>
<b>Revenue</b> from ordinary activities <i>(Appendix 4D item 2.1)</i>	up/down	9.1%	to	19,733
<b>Profit</b> from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.2)</i>	up/down	n/a%	to	461
<b>Net profit</b> for the period attributable to members <i>(Appendix 4D item 2.3)</i>	up/down	n/a%	to	461

<b>Dividends/distributions</b> <i>(Appendix 4D item 2.4)</i>	Amount per security	Franked amount per security
Final dividend (prior year)	n/a	n/a

**Record date** for determining entitlements to the dividend  
*(Appendix 4D item 2.5)*

n/a
-----

**Explanation of Revenue** *(Appendix 4D item 2.6)*

Revenues from continuing operations were 9.1% higher at \$19.7m for the half year to December 31, 2006 compared to \$18.0m for the previous corresponding half year. The improved revenue position was primarily a result of the strong underlying turnaround in the US business following the changes made in that business in calendar 2005.

Revenues from continuing operations in the USA were 40% higher at \$9.0m for the half year to December 31, 2006 compared to \$6.4m for the previous corresponding half year. The improved revenue position was broadly across the board for the US business with sleep product revenues 43% higher, brain research revenues 17% higher, DWL revenues 287% higher, supplies revenues 5% higher and service revenues 31% higher than for the previous corresponding half year.

Revenues from continuing operations in the European business were 35% higher at \$3.1m for the half year to December 31, 2006 compared to \$2.3m for the previous corresponding half year.

Revenues from continuing operations in Asia were 46% lower at \$1.6m for the half year to December 31, 2006 compared to \$3.0m for the previous corresponding half year, reflecting external market issues in the Chinese market.

Revenues from continuing operations in Australia were 8% lower at \$2.6m for the half year to December 31, 2006 compared to \$2.8m for the previous corresponding half year, but are broadly in line with revenues expected from this market given our 70%+ market share.

**Explanation of Profit/(loss) from ordinary activities after tax** *(Appendix 4D item 2.6)*

Profit for the half year to December 31, 2006 was \$0.5m compared to a loss of \$3.0m for the previous corresponding half year.

The significant improvement in the earnings capability for the business was driven by the return to growth in revenues from continuing operations plus the full effect of the expense reductions that were implemented from late calendar 2005 through calendar 2006, including the \$0.8m reduction in legal costs associated with the European legal dispute that were incurred in the previous corresponding half year.

As previously noted in the ASX Final Report at June 30, 2006 the company implemented expense reductions of about \$4m on an annualised basis during financial year 2006 of which about \$2m are reflected in the half year result to December 31, 2006

In addition the company has grown revenues by \$1.7m for the half year to December 31, 2006 compared to the previous corresponding half year which improves earnings by about \$1.0m in the current half year.

Whilst significant work has been done to bring the business back to profitability much work still remains to achieve satisfactory earnings from a market perspective. To this end the company will continue to reduce expenses where it can and to logically continue to grow revenues from continuing operations by expanding market share in the US, Europe and Asia as well as selling into markets around the world where the company currently does not have a presence or has a small presence relative to the market opportunity.

**Explanation of Dividends** *(Appendix 4D item 2.6 )*

No dividends have been declared or paid in the period.

**Compumedics Limited**  
**Half Year report - 31 December 2006**

<b>Contents</b>	<b>Page</b>
Directors' Report	5
Auditors' independence declaration	7
Interim financial report	
Consolidated income statement	8
Consolidated balance sheet	9
Consolidated statement of changes in equity	10
Consolidated cash flow statement	11
Notes to the financial statements for the half year ended 31 December 2006	12
Directors' declaration	17
Independent review report to the members	18
Supplementary Appendix 4D information	20

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Compumedics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' Report

### Interim Report – 31 December 2006

Your director's present their report on the consolidated entity consisting of Compumedics Limited and the entities it controlled at the end of, or during the half-year ended 31 December 2006.

#### **Director's**

The following persons were directors of Compumedics Limited during the whole of the half-year and up to the date of this report.

Mr. D. Burton  
Mr. A. Anderson  
Prof. G. Mitchell

Mr. Bruce Rathie resigned as a Director of the company as at 31 December, 2006.

#### **Review of Operations**

A summary of consolidated revenues and results for the half year is set out below:

	<b>6 mths ended Dec 2006</b>	<b>6 mths ended Dec 2005</b>
Operating revenue (A\$'000)	19,733	18,054
Profit / (Loss) before interest, and tax (A\$'000)	748	(2,909)
Profit / (Loss) for the half year (A\$'000)	461	(3,021)
Profit / (Loss) per share (cents)	0.00¢	(2.16)¢

Comments on the operations are as follows:

### **Business / Product Group Performance**

The company generated revenues from continuing operations of \$19.7m for the half year to December 31, 2006, which was 9.1% higher than the previous corresponding half year.

Revenues from continuing operations in the sleep business globally were \$8.1m for the half year to December 31, 2006 or 28% higher than the previous corresponding half year. The improvement in the sleep business was primarily driven by the improvements in the US and European markets for sleep products as a consequence of the changes that were implemented there in 2005 and 2006.

Revenues from continuing operations in the brain research business globally were \$4.8m for the half year to December 31, 2006 or about the same as the previous corresponding half year. Growth for the brain research business was primarily driven out of the US and European markets at 17% and 27% growth respectively compared to the previous corresponding half year. This was offset to some extent by sales declines in Asia.

Revenues from continuing operations in the DWL business globally were \$3.5m for the half year to December 31, 2006 or 28% higher than the previous corresponding half year. Growth for the DWL business was primarily driven out of the US market where revenues were 287% higher than the previous corresponding half year.

### **Events subsequent to reporting date**

Pursuant to the terms of its renewed arrangements with its bankers the company paid down \$2m in debt by utilising its security cash deposit. The pay down of the long term debt occurred during January 2007. The impact of this pay down in long term debt was to reduce cash and cash equivalents by \$2m and reduce non current interest bearing liabilities by the same amount.

### **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

### **Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

D. Burton  
Executive Chairman

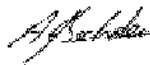
Melbourne  
February 27, 2007

## Auditor's Independence Declaration

As lead auditor for the review of Compumedics Limited for the half year ended 31 December 2006,  
I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Compumedics Limited and the entities it controlled during the period.



Anton Linschoten  
Partner  
PricewaterhouseCoopers

Melbourne  
27 February 2007

**Compumedics Limited**  
**Consolidated income statement**  
**for the half year ended 31 December 2006**

	Half Year 2006 \$'000	Half Year 2005 \$'000
<b>Revenue from continuing operations</b>	<b>19,733</b>	<b>18,054</b>
Cost of sales	(7,474)	(7,203)
Administration	(2,263)	(3,651)
Sales & Marketing	(6,219)	(5,990)
Research & Development	(2,631)	(3,894)
Finance costs	(485)	(336)
Net foreign exchange gain / (loss)	(200)	2
<b>Profit/(Loss) before income tax</b>	<b>461</b>	<b>(3,018)</b>
Income tax expense	-	(3)
<b>Profit/(Loss) for the half year</b>	<b>461</b>	<b>(3,021)</b>
Profit/(Loss) attributable to members of Compumedics Limited	461	(3,021)
<b>Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company:</b>	Cents	Cents
Basic earnings per share	0.00	(2.16)
Diluted earnings per share	0.00	(2.16)

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



**Compumedics Limited**  
**Consolidated balance sheet**  
**as at 31 December 2006**

	<b>31 Dec 2006</b>	<b>30 June 2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,989	3,319
Receivables	12,723	13,112
Inventories	5,184	4,826
<b>Total current assets</b>	<b>20,896</b>	<b>21,257</b>
<b>Non current assets</b>		
Property, plant and equipment	595	918
<b>Total non current assets</b>	<b>595</b>	<b>918</b>
<b>Total assets</b>	<b>21,491</b>	<b>22,175</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	6,652	7,128
Interest bearing liabilities	2,606	3,196
Current tax liabilities	71	72
Provisions	673	640
Other	1,100	1,115
<b>Total current liabilities</b>	<b>11,102</b>	<b>12,151</b>
<b>Non current liabilities</b>		
Interest bearing liabilities	3,029	3,247
Provisions	84	60
<b>Total non current liabilities</b>	<b>3,113</b>	<b>3,307</b>
<b>Total liabilities</b>	<b>14,215</b>	<b>15,458</b>
<b>Net assets</b>	<b>7,276</b>	<b>6,717</b>
<b>EQUITY</b>		
Contributed equity	29,357	29,020
Reserves	(624)	(385)
Retained earnings	(21,457)	(21,918)
<b>Total equity</b>	<b>7,276</b>	<b>6,717</b>

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

**Compumedics Limited**  
**Consolidated statement of changes**  
**in equity for the half year**  
**ended 31 December 2006**

	<b>Half Year 2006 \$'000</b>	<b>Half Year 2005 \$'000</b>
Total equity at the beginning of the half year	6,717	8,139
Exchange differences on translation of foreign operations	(239)	257
<b>Net income/(losses) recognised directly in equity</b>	<b>(239)</b>	<b>257</b>
Profit/(Loss) for the half year	461	(3,021)
Total recognised income and expenses for year	222	(2,764)
 <b>Transactions with equity holders in their capacity as equity holders:</b>		
Value of conversion rights on issue of Redeemable Convertible Notes (RCN's)	337	-
<b>Total equity at the end of the half year</b>	<b>7,276</b>	<b>5,375</b>

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

**Compumedics Limited**  
**Consolidated cash flow statement**  
**for the half year ended 31 December 2006**

	Half Year 2006 \$'000	Half Year 2005 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	19,732	17,516
Payments to suppliers and employees (inclusive of goods and services tax)	(19,149)	(18,647)
Interest received	74	78
Interest and other costs of finance paid	(264)	(336)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>393</b>	<b>(1,389)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	-	(31)
<b>Net cash inflow / (outflow) from investing activities</b>	<b>-</b>	<b>(31)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	257
Repayments of finance leases	(66)	(90)
Repayment of borrowings	(489)	(102)
<b>Net cash inflow / (outflow) from financing activities</b>	<b>(555)</b>	<b>65</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(162)</b>	<b>(1,355)</b>
Cash and cash equivalents at the beginning of the half year	2,353	3,922
Effects of exchange rate changes on cash	31	12
Cash and cash equivalents at the end of the half year	2,222	2,579
Add back DWL overdraft presented as current interest bearing liabilities in the consolidated balance sheet	767	740
Cash and cash equivalents as reported in the consolidated balance sheet	2,989	3,319

\$2m of the above cash balance is restricted as part of the company's security arrangement with the ANZ Bank.

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

**Compumedics Limited**  
**Notes to the financial statements**  
**for the half year ended 31 December 2006**

**1 Basis of preparation of consolidated half year financial report**

The financial report for the interim half year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Compumedics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

*Going Concern*

During the half year ended 31 December, 2006 the consolidated entity (Compumedics) generated an operating profit of \$0.5m and positive cash flows from operations of \$0.4m. This was in contrast with the previous financial year during which the consolidated entity experienced operating losses and negative cash flows from operations.

As the consolidated entity previously indicated in the ASX Final Report at June 30, 2006 about \$4.0m in costs on an annualised basis have been removed from the business and these are now fully reflected in this result along with additional profits from the growth in sales.

As a consequence the consolidated entity was compliant with each of its bank covenant tests through the period from July 2006 to December 2006. The consolidated entity has now been compliant with its bank covenants since March 2006.

However, the continuing viability of the consolidated entity requires:

- The consolidated entity to achieve its budget and comply with its bank covenants
- Improvement in the terms under which receivables are collected
- The intention of the RCN's holder not to convert the RCN's into cash in March 2007.

In addition, the consolidated entity continues to progress a number of additional strategies in order to potentially raise capital or reduce costs further should the need arise.

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

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2006**

**Note 2. Segment information**

**Primary reporting format – business segments**  
**Half year 2006**

	Sleep	Neuroscan (Brain Research)	Neuroscience (Clinical EEG + DWL)	Supplies	Intersegment Elimination	\$'000
						Group
<b>Total segment revenue</b>	8,504	4,767	4,386	2,065	-	19,722
<b>Unallocated revenue</b>						11
<b>Total revenue and other income</b>						19,733
<b>SEGMENT RESULT</b>	1,074	(335)	(616)	708	-	831
<b>Unallocated revenue less unallocated expenses</b>						(370)
<b>Profit before income tax</b>						461

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2006**

**Note 2. Segment information**

**Primary reporting format– business segments**  
**Half year 2005**

	Sleep	Neuroscan (Brain Research)	Neuroscience (Clinical EEG + DWL)	Supplies	Intersegment Elimination	<b>\$'000</b> Group
<b>Total segment revenue</b>	6,987	4,944	4,256	2,040	(173)	18,054
<b>Unallocated Revenue</b>						-
<b>Total revenue and and other income</b>						18,054
<b>SEGMENT RESULT</b>	<b>(853)</b>	<b>(499)</b>	<b>(1,042)</b>	<b>289</b>		<b>(2,105)</b>
<b>Unallocated revenue less unallocated expenses</b>						(913)
<b>Profit before income tax</b>						<b>(3,018)</b>

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2006**

**Note 3. Equity securities issued**

On March 16, 2006 the company issued Redeemable Convertible Notes (RCN's) to D&DJ Burton Holdings Pty Ltd to the value of \$1 million which has been classified as debt.

The terms of this RCN's issue are:

1. The RCN's carry a coupon rate of interest of 20%pa as approved by shareholders at the annual general meeting of the company on November 28, 2006.
2. The RCN's are convertible into ordinary issued equity of the company on the 1<sup>st</sup> and 2<sup>nd</sup> anniversary of their issue.
3. The RCN's have a 2 year life.
4. The conversion factor to be used if the holder elects to turn the RCN's into ordinary equity of the company is the average share price for 5 days immediately prior to the issue of the RCN's.
5. The \$1m is payable within 30 days of the issue of the RCN's.
6. The ability of the note holder to convert the RCN's into ordinary equity of the company required the approval of the shareholders. The approval of the shareholders was obtained at the Annual General Meeting on November 28, 2006.

As already indicated on November 28, 2006 at the annual general meeting of Compumedics Limited the shareholders approved the rights of the note holder to convert the RCN's to equity in Compumedics Limited as laid out in the terms of the RCN's document.

The shareholders at the same meeting also confirmed the interest rate of 20% pa which was a direct outcome to the shareholders approval of convertibility of the RCN's to equity in Compumedics Limited.

As a consequence the note holder is entitled to a coupon interest rate of 20% and may in the 7 day period up to March 16, 2007 convert or redeem some or all of the RCN's.

The same election also exists in the 7 day period up to March 16, 2008. However on March 16, 2008 the Company must redeem any outstanding RCN's at that point in time.

In addition the RCN's provide for interest to be paid annually on March 16, 2007 and 2008. The interest payable at that time can only be paid in equity pursuant to the terms of the RCN's.

The fair value of the RCN's is presented in the balance sheet as current interest bearing liabilities. The fair value of the conversion rights are presented in equity.

**Compumedics Limited**  
**Notes to the consolidated financial statements**  
**for the half year ended 31 December 2006**

**Note 4.      Events occurring after balance date**

Pursuant to the terms of the consolidated entity's renewed arrangements with its bankers the company paid down \$2m in debt by utilising its security cash deposit. The pay down of the long term debt occurred during January 2007. The impact of this pay down in long term debt was to reduce cash and cash equivalents by \$2m and reduce non current interest bearing liabilities by the same amount.



**Compumedics Limited  
Directors' Declaration  
for the half year ended 31 December 2006**

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 16 are in accordance with the Corporations Act 2001, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half year ended on that date; and

(b) There are reasonable grounds to believe that Compumedics Limited 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.

David Burton  
Executive Chairman

Melbourne  
February 27, 2007

**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**to the members of Compumedics Limited**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Compumedics Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Compumedics Limited Group (the consolidated entity). The consolidated entity comprises both Compumedics Limited (the company) and the entities it controlled during that half-year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Compumedics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not



enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

#### *Independence*

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

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Compumedics Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A handwritten signature in cursive script, appearing to read 'Anton Linschoten'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to read 'Anton Linschoten'.

Anton Linschoten  
Partner

Melbourne  
27 February 2007

**Compumedics Limited**  
**Supplementary Appendix 4D information**  
**for the half year ended 31 December 2006**

**NTA Backing** *(Appendix 4D item 3)*

	2006	2005
Net tangible asset backing per ordinary share	5.2 cents	4.0 cents

**Additional dividend/distribution information**<sup>2</sup> *(Appendix 4D item 5)*

Details of dividends/distributions declared or paid during or subsequent to the year ended 31 December 2005 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Dividend/distribution reinvestment plans** *(Appendix 4D item 6)*

**NOT APPLICABLE**

**Compumedics Limited**  
**Supplementary Appendix 4D information**  
**for the half year ended 31 December 2006**

**Material factors affecting the revenues and expenses of the economic entity for the current period**

The major impacts to the revenues and expenses of the economic entity in the half year to December 31, 2006 have already been disclosed elsewhere in this document.

**Material factors affecting the assets, liabilities and equity of the economic entity for the current period**

The major factors impacting the assets and liabilities of the Company relate to the on-going turn around of the Company following it's restructure and as evidenced by these results.

**Material factors affecting the cash flows of the economic entity for the current period**

The major factors impacting the cash flows of the Company relate to the on-going turn around of the Company following it's restructure and as evidenced by these results.