COMPUMEDICS®

# Annual Report 2010

> Sleep Monitoring > Brain Monitoring > Ultrasonic Blood Flow Monitoring

SLEEP DIAGNOSTICS
EXCELLENCE
Since 1987

# FINANCIAL SUMMARY

| ALL FIGURES IN A$M UNLESS OTHERWISE STATED | 2010 | 2009 |
|---|---|---|
| Revenue for continuing operations | **32.4** | 38.4 |
| Earnings before interest, income tax, depreciation and amortisation (EBITDA) | **1.5** | 3.7 |
| Earnings before interest and income tax (EBIT) | **1.0** | 3.1 |
| Net operating profit after tax (NPAT) | **0.4** | 2.7 |
| Research and development costs as a percentage of operating revenue | **15.1** | 12.9 |
| Total assets | **21.6** | 21.5 |
| Shareholders funds | **12.2** | 11.5 |
| Net tangible assets per share (cents) | **5.0** | 5.0 |
| Weighted average number of shares (million) | **162** | 161 |
| Earnings per share (basic) (cents) | **0.26** | 1.7 |
| Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents) | **0.94** | 2.3 |

## UNDERSTANDING THE NUMBERS

**Revenues:** Revenue was $32.4m compared to $38.4m over the previous corresponding period.

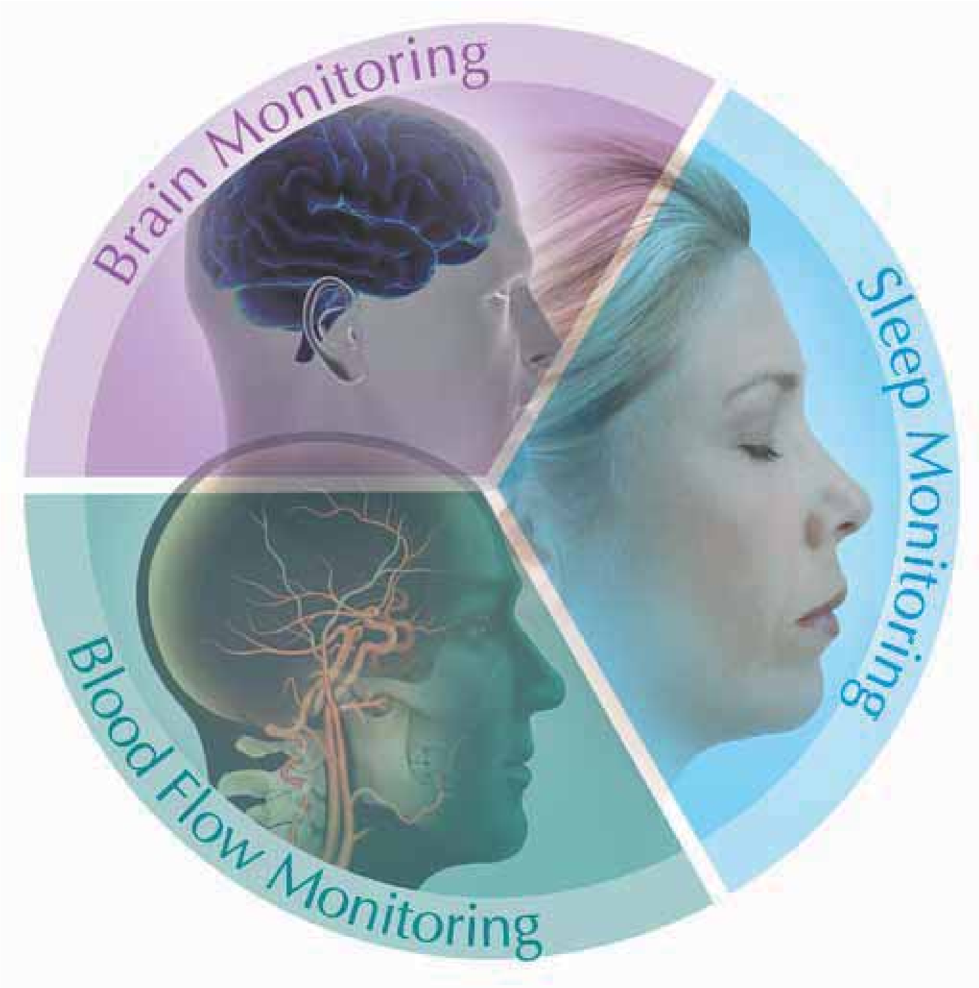
**EBITDA:** To $1.5m in the current financial year from $3.7m in the previous financial year.

**PAT:** The business made $0.4m this year compared to $2.7m last year.



**Compumedics Limited**
ABN 95 006 854 897

**Annual General Meeting**
Thursday 28th October 2010
at 10.30am
To be held at: Compumedics Limited
30-40 Flockhart Street Abbotsford
Victoria 3067






## Compumedics is a world leading supplier of medical technology for patient monitoring.

Since 1987, Compumedics' strategy has focused on developing its core competency – Sleep Diagnostics – which has enabled the company to become one of the leaders in this growing international healthcare market. Today Compumedics has evolved into one of the world's leading suppliers of medical technology for sleep, brain and ultrasonic blood flow monitoring. Compumedics' technologies and products are distributed to clients around the globe, helping millions of people who suffer from debilitating sleep, neurological and other healthcare problems. Each of these markets is multi-billion dollar in scope, at an early phase of evolution, with high growth expectations and Compumedics technology is uniquely positioned for imminent growth in each of these markets.

# A focused strategy in action

## For over 20 years, Compumedics' focus in Sleep and associated medical disorders has established a solid platform for growth.

### 1987

**Compumedics established**
David Burton founded Compumedics to design and manufacture medical electronics. Prior to Compumedics, analysis and diagnosis depended, in large part, upon manual recording methods, which were very time consuming and costly to implement. The sleep monitoring system developed by Compumedics comprises powerful computer-based hardware and sophisticated software programs which eliminate thousands of pages of paper readings and countless hours of work by technicians, freeing them for more productive work.

### 1988

**Epworth installs first Sleep Disorders Unit**
Compumedics' first sleep system was installed at the Epworth Hospital Sleep Disorders Unit (Melbourne, Victoria). TIME magazine and the television series 'Beyond 2000' both featured the Epworth sleep center.


Globally read TIME magazine cover and article brings the "Trouble with Sleep" to the world.

### 1989

**Computer-Aided Sleep Scoring system released**
Dr M.W. Johns and David Burton released an abstract: An improved Method for EEG Analysis and Computer-Aided Sleep Scoring. This system is the basis for Compumedics' current sleep staging software that is now recognised throughout the world.

### 1990

### 1991

S-Series – the first digital sleep system in Asia Pacific

**P-Series and S-Series released**
Compumedics announced the release of the P-Series Portable Sleep Monitoring System with features including intelligent CPAP control.

Compumedics released its S-Series optical erasable disk storage sleep systems.

**Royal Prince Alfred Hospital installation**
Compumedics sleep equipment was chosen by the internationally recognised Sleep Disorder Centre at the Royal Prince Alfred Hospital, Sydney. This centre, under the direction of Prof. CE Sullivan (University of Sydney) was responsible for the breakthrough discovery in the treatment of sleep apnoea with nasal CPAP in 1981.

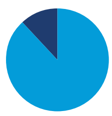
### 1992

### 1993

**NZ's first Sleep Laboratory installed**
Compumedics installed New Zealand's first fully computerised sleep laboratory at Green Lane Hospital.

Sales revenue
**$1.7M**

Sales split




### 1994

**NASA contracts won for International Space Station and Space Shuttle flight preparation**
NASA chose Compumedics' P-Series Portable Sleep Monitoring System for the 1998 Neuro-mission Space Shuttle flight preparations.

Compumedics entered into co-operation with the US$5 billion dollar Japanese conglomerate, Teijin for the development of the Japanese sleep market.

Compumedics developed its Paperless EEG system in conjunction with world-renowned EEG researchers and technicians including Dr Sam Berkovic and Mr Milosh Vosnansky of the Austin Hospital Neurology Department – leading epilepsy centre in the Southern Hemisphere.

Compumedics was awarded a patent for its on-line analysis.

Compumedics was awarded AS3901/ ISO9001 Total Quality Management certification by NATA.

### 1995

**Chosen for world's largest sleep study**
Compumedics won the competitive US Government-funded contract to supply the equipment for the world's largest sleep study (6000 patients). The five year Sleep Heart Health Study (SHHS) was won against a field of 22 competitors, including multinationals. Compumedics supplied 40 P-Series Sleep Monitoring Systems along with 9 replay and 6 analysis systems. The equipment selection committee was made up of sleep experts from 11 leading University Hospitals across the USA.

Compumedics was granted IEC 601-1 patient safety certification for its S-Series and P-Series products.

### 1996

Used by NASA and SHHS.

**Key awards and wins**
Compumedics was awarded the European CE mark for Quality and Good Manufacturing Processes.

Compumedics won the contract to supply medical hardware for the International Space Station's Human Research Facility (HRF) under contract to NASA.

### 1997

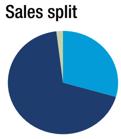
**P-Series products wins award and FDA approval**
Compumedics' P-Series wins a Highly Commended Award at the Australian Engineering Excellence Awards.

Compumedics was awarded the 1997 Premier's Award for Technological Innovation in the Telstra & Victorian Government Small Business Awards.

**FDA approval for P-Series**
P-Series receives FDA clearance to market in the USA.

Sales revenue
**$5.4M**

Sales split




### 1998

**Compumedics recognised**
Compumedics was named Australian Exporter of the Year.

Compumedics was awarded the Commonwealth Bank Small to Medium Innovative Manufacturer Award.

Compumedics was awarded the 1998 Governor of Victoria Award for Victorian Exporter of the Year.

Compumedics was awarded the 1998 Governor of Victoria Export Award for Small to Medium Innovative Manufacturer.

Compumedics was awarded the 1998 AusIndustry Innovation Award.

Compumedics was awarded the 1998 Telstra Innovation Award.

### 1999

**Compumedics awarded**
Compumedics was named Small Business of the Year at the Telstra and Australian Government Small Business Awards.

Compumedics won the AusIndustry Innovation Award at the Telstra and Australian Government Small Business Awards.

Compumedics won the Ansett Australia Business Owner Award at the Telstra and Victorian Government Small Business Awards.

Compumedics was awarded the 1999 Business Asia Best Australian Small Medium Business Activity in Asia Award.

# Building a world-class medical technology company for patient monitoring.



2000

**Compumedics' ASX listing**
Compumedics listed on the Australian Stock Exchange.

E-series EEG/ PSG system receives FDA clearance to market in the USA.

E-Series EEG/PSG system

## 2001

**CMP receives more recognition**
Compumedics won the 2001 Australian Export Award for Small to Medium Manufacturers.

Compumedics won the 2001 Governor of Victoria Export Award for Small to Medium Manufacturer.

Compumedics won the AVCAL (Australian Venture Capital Association Limited) award for Best Early Stage Investment for 2000/2001.

**FDA clearance for Siesta**
Siesta Systems receives FDA clearance to market in the USA.

Siesta 802™ – World leading wireless system for sleep and EEG.

2002

Somté – "holter-style" recording for both cardiac and respiratory data

**Somté receives European clearance**
Somté receives CE mark for European Market

**Compumedics' completes first acquisition – Neuroscan.**

Sales revenue
$^{\$}$20.2M

2003

**FDA clearance for Somté**
Somté cardio-respiratory System receives FDA clearance to market in the USA.

**Compumedics awarded**
the Frost and Sullivan Award for Market Expansion Strategy

Sales revenue
$^{\$}$32.1M

2004

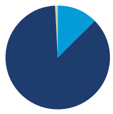
**Compumedics acquires German based DWL Electronishe Systeme GmbH**

**FDA approval for Summit IP**
Summit IP receives FDA clearance to market in the USA

**FDA approval for SynAmps2**
SynAmps2 receives FDA clearance to market in the USA

Sales revenue
$^{\$}$34.0M

Sales split




## 2005

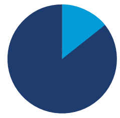
**DWL division established for blood-flow Doppler technology.**

Sales revenue
$^{\$}$38.2M

2006

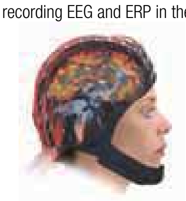
**Sleep Products received regulatory clearance in Taiwan**

**Sales revenue Regional Split**




**Key distributor agreement signed with Medigas Italia, a division of Praxair, Inc., for the distribution of the complete Compumedics product line.**

Neuroscan MaglinkRT released with CE mark approval.
Latest generation technology for recording EEG and ERP in the MRI.



2007

**Compumedics awarded the 2006 Frost & Sullivan Technology Leadership Award.**

**Compumedics and chairman inducted into the Victorian Manufacturing Hall of Fame.**

**Somté PSG is released -** the simplest and most convenient way to meet requirements for recording full PSG, in both attended and unattended settings.

**Profusion PSG3 is released -** the next generation world class sleep diagnostics software - redesigned and with more powerful productivity tools. World's first to be AASM compliant.

**Somté PSG & Profusion PSG3 receive CE mark**

Somté PSG™ - Full PSG absolutely anywhere.

2008

Medigas Italia Srl invests in Compumedics commercialisation of new generation sleep-efficient Somnilink SPAP device.

Medigas Italia Srl (member of SIAD group of Companies, SIAD owned 34% by Praxair Inc.) takes strategic stake in Compumedics.

US Office relocated to Charlotte, NC.

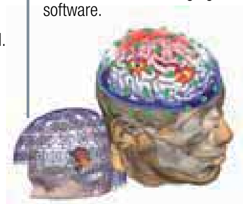
**$200m of revenue achieved since listing.**

**Compumedics DWL awarded membership to Germany's top 100 innovative companies.**

**Neuvo LTM is released -** the new standard in LTM and epilepsy monitoring.

**Xegis EMG/EP/IOM released -** leading the way in Neurophysiology EMG/EP/IOM.

**CURRY 6 released -** the world's most powerful Multi-modal Neuroimaging software.



CURRY 6 - Multi-modal Neuroimaging software

## 2009

**Grael is released -** Compumedics released the world's first High Definition and premier PSG/EEG, Grael

**Grael wins Powerhouse Museum Award & finalist at the Australian International Design Award.**

Grael PSG/EEG - World's first High Definition Amplifier.

**Profusion EEG4 is released -** The next generation world class clinical and LTM software package.

Record profits
$^{\$}$2.7M

Compumedics introduces direct selling in Germany.

**University Medical Centre in Freiburg chooses Neuvo LTM EEG ahead of all major competitors.**

Neuvo LTM EEG - The Ultimate Long-term EEG Monitoring System.

**Somnilink SPAP debuts in Australia.**

**Compumedics DWL wins Innovation Grant.**

## 2010

Somnilink SPAP®

**Somnilink SPAP receives CE and TGA clearance.**

**Grael recieves FDA clearance.**

Compumedics wins major Mannhiem University Medical Centre contract in Germany.

Mannheim University Medical Centre Sleep Laboratory.

**Compumedics recognised as one of Australia's top 100 Health Innovators through its world leading devices for sleep diagnostics.**

**The updated Somté PSG is released.**

Updated Somté PSG™ - Full PSG absolutely anywhere.

# Chairman's address

***Dear Compumedics investors,***

On behalf of the Board, Management and Compumedics team I present to you the results contained within the 2010 Annual Report.

The results once again demonstrate the on-going stability in the Company's financial performance. This is despite the continuing impacts of the global financial crisis (GFC), particularly in the US where the economic and market conditions are most challenging. The key results achieved and highlights for the year ended 30 June 2010 are:

- Net profit after tax (NPAT) was a solid $0.5m and was the eighth consecutive profitable six-month report.
- Revenues, impacted by difficult market conditions in the US and a high Australian dollar, were $32.4m for the year ended 30 June 2010 or 15.6% lower than the prior year. In constant currency terms sales were down only 3.6% on the prior year. The declines in US revenues were partially offset by growth in Germany.
- The Company was holding a record number of orders-on-hand at 30 June 2010 of $3.0m.
- The Company's German business has performed well in its key markets.
- The Company closed the year ended 30 June 2010 selling its next-generation sleep diagnostic device Grael® PSG into all of its key global markets, augering well for future growth.
- The Company has posted the first sales of its new EEG long-term monitoring (LTM) device, Neuvo®, and is currently short-listed for several opportunities in the US and other countries.
- The Company is shipping its new sleep-treatment device SomniLink® SPAP® to Italy.
- The US market remains challenging but the Company is taking the necessary steps to regain growth in this critical market.
- Cost reductions of $0.5m on an annualised basis have been implemented in the US business, with a further $0.5m annualised cost reductions being implemented across the broader Group.

Importantly, the results marked eight consecutive profitable six-month reports to the ASX since the commencement of the Company's 2006 performance transition program.

While we remain cautiously optimistic about the future, it is also clear that Compumedics is one of the few quality Australia-based medical device companies with a hardened balance sheet, substantial sales, extraordinary core growth, and new breakout growth prospects.

While the first phase of the Compumedics journey as a listed company resulted in 400% sales growth ($9m to $38m), the results of the second phase being consolidation and re-positioning, is further enhanced by FY2010's results.

The third phase will be a return to revenue growth by scaling up, sales and marketing outcomes and growing profitability by focusing on the fundamental business performance. In terms of the key growth opportunities for the core sleep, brain and ultrasonic blood-flow monitoring equipment businesses the Company believes these will come from the following primary areas:

1. The expansion of our principal sleep-diagnostic and brain (neurological) monitoring businesses in Europe, specifically, Germany and France, with Germany well underway and France in the formative stages.
2. The entry of Compumedics into the global LTM EEG market with the world-wide release of its new innovative LTM device, Neuvo®. The Company has secured initial sales of the device in Europe and Australia and has several opportunities in the US which it is currently pursuing.
3. The evolution of the home-sleep-testing (HST) market in the US as a result of changes to US private and government funding of HST and the capitalisation of the consequential growth opportunities resulting from the sleep-sector stimulous effects of these small, limited channel sleep-diagnostic screener devices.

During the past financial year, Compumedics sold directly to end-user customers in Germany its range of sleep-diagnostic systems. Germany is Europe's largest and the world's second biggest market for sleep-diagnostic devices. Compumedics' ongoing European focus will be further augmented with the Company's expansion into France, another major European market.

The Company believes it can add incremental revenues of between $3m to $10m per annum through the successful penetration and expansion into these important German and French markets, coupled with a general enhancement of the Company's sleep-diagnostic distribution network across Europe.

The Company is currently entering the EEG LTM market, a new and incremental market for Compumedics, with the launch of its innovative EEG product; Neuvo®. The EEG LTM market presents Compumedics with a new opportunity, with total annual market sales estimated at about USD250m. Compumedics is well positioned to capture a 5% to 10% share of this global market.

Finally, Compumedics has the most sophisticated and advanced range of portable sleep-monitoring systems of any of the companies competing in these markets. The Company has been recognised as the leader in this field since winning the contract to supply the world's largest sleep study of its kind with portable systems; the Sleep Heart Health Study coordinated by the US National Institutes of Health, has completed in the order of 20,000 sleep studies using Compumedics' portable monitoring equipment. Importantly, the Company has won a significant new order to supply this on-going study with Compumedics latest Somté® PSG device. This order for 36 devices will be filled in the first quarter of the new financial year and a has value of about $300k.

The HST market in the US is currently estimated to be approximately USD10m pa and growing at double digit rates. Compumedics has to-date focused on its traditional customer base and is currently implementing strategies it has formulated over recent times to aggressively pursue this emerging market with a low-cost, but leading technology, device derived from the Company's existing and award-winning Somté® device.

Compumedics is well positioned to capture a substantial share of this growing sleep-screening market sector.

Compumedics is concurrently enhancing its presence in its traditional US sleep-laboratory market with the launch of its new Grael® PSG sleep diagnostic device, the world's first premium performance high-definition sleep diagnostic amplifier. Compumedics is now selling this device into all its key global markets.

While we clearly understand the need to continue our focus on scaling up our global sales and marketing outcomes, productivity improvements and strengthened business fundamentals, these results demonstrate the culmination of a resilient business well positioned to take advantage of the opportunities ahead as the effects of the GFC abate and as the Company continues to focus on expanding its market share and scope.

We thank you for your continued support and look forward to sharing with you a number of special milestones and business updates as Compumedics forges ahead.

Yours sincerely,

**David Burton**
*Chairman and Chief Executive Officer*

## Compumedics has now delivered its eighth consecutive profitable six-month report, what does this mean for the Company and its shareholders?

The Company has worked extremely hard over the last four years to restore its financial performance. This profitable result, together with the preceding seven profitable results, confirms the decisions and actions taken over that time. In the current year it also highlights the continuing difficult markets the Company has to traverse in running the business.

Despite the external factors the Company must navigate through, Compumedics will continue to work conscientiously to build on these results and, in particular, notes the following key points:

- The performance transition program has continued to deliver earnings despite a very difficult and key US market. The Company was operating cash positive again for the eight consecutive six-month report
- Bank debt has continued to fall
- Compumedics' core businesses all have strong growth outlooks for new products being released
- Compumedics is a world leading supplier of technology for monitoring for sleep, brain and ultrasonic blood flow
- All these markets are young, technology dependent, high growth and globally multi-billion dollar markets
- Sleep apnoea remains an enormous and expanding world market with a largely undiagnosed patient population base
- Sleep deprivation is epidemic world-wide
- Sleep science is a relatively new science with growth continuing as sleep diagnostics moves from the lab to the clinic to the home
- The 20,000 systems Compumedics has installed world-wide only scratches the surface of the market potential
- Prestigious client base and iconic brands (Compumedics® / Neuroscan® / DWL®)
- New growth pathways include sleep services, home sleep testing in the US and sleep treatment, in addition to sleep-diagnostic capital-equipment
- The unique patents which have been granted across sleep diagnostics, sleep treatment, EEG analysis and monitoring, anesthesia monitoring and new-generation vascular measurement systems will be exploited as the Company continues to strengthen its working capital and balance sheet. In particular, high calibre global leaders in complementary fields of sleep, EEG and blood flow monitoring will be sought in the context of establishing further license, joint-venture, OEM, distribution, and other strategic opportunities as we realise the Company's intrinsic value.

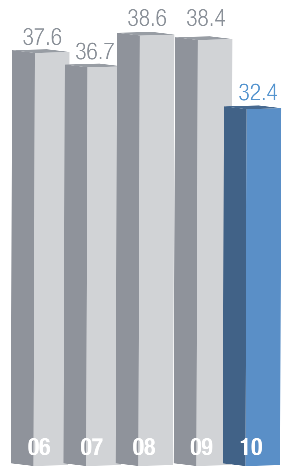
## Can you explain why earnings declined from the previous year?

Earnings declined because of two primary reasons. First the Australian dollar appreciated significantly during the year when compared to both the US dollar and the Euro. As the Company holds offshore assets valued in both these currencies a large $1.2m charge was taken against earnings reflecting the impact the increasing value of the Australian dollar in the financial year. Second the Company continued to experience difficult market conditions in the US and this led to sales declining in this market year-on-year. However, the Company is carefully navigating through these global GFC related conditions, which augers well in terms of realising shareholders value moving forward.

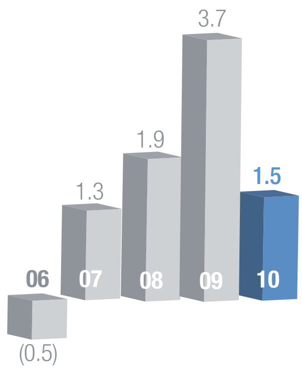
## You mentioned that sales had fallen in the US market. Can you elaborate on this?

Compumedics' core businesses are primarily based on the supply of capital-equipment medical-diagnostic devices for hospitals, universities, laboratories and medical clinics. Historically these markets have been relatively immune from fluctuations in general economic conditions. When the global financial crisis (GFC) began it became apparent that funding restraints in our key markets were being put in place. As governments particularly in the US and, to a lesser extent, Europe struggle to cope with mounting debt and ever increasing budget deficits, constraints on capital-equipment spending continue to be enforced at least for high-end capital equipment.

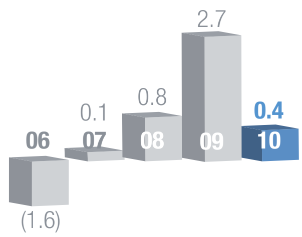
The US market in particular has remained very difficult post the GFC and the Company is currently implementing changes to its sales and marketing efforts and infrastructure, to better enable the Company to re-establish growth in this critically important market.




Revenue $millions

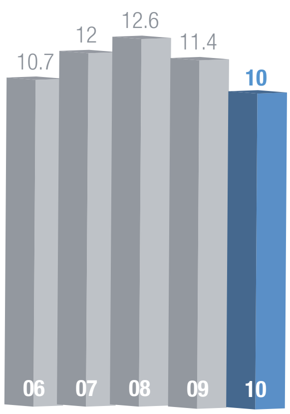



EBITDA $millions




NPAT $millions

*excluding write down of intangible assets




US business revenues
$US millions

*Eight consecutive profitable six monthly reports to shareholders.*

### Compumedics' financial position remains strong; how does the Company plan to protect this position given the external market conditions already highlighted?

The Company has worked extremely hard over recent years to strengthen its financial position. Profits after tax, operating cash, bank debt and cash on hand have all moved favourably back to more sustainable levels over the last four or so years, despite wild fluctuations in foreign currency markets and the economic events of the last 24 months. Compumedics will continue to apply the disciplines that have contributed to the financial results so far, in navigating a path for the Company through the remaining difficult external factors affecting the Company's key markets.

The current challenge for the Company is to balance these strict financial disciplines with the need to recapture the growth profile of the Company so as to simply sell more of what the Company makes. Therefore the Company will continue to invest in expansion of its global sales and marketing footprint while vigorously reviewing opportunities to exploit its rich patent portfolio and technology.

### How will the Company recapture the growth it achieved as a young publicly listed company?

During the first phase of Compumedics' journey as a listed Company we achieved 400% sales growth ($9m to $38m). The results of the second phase of Compumedics' journey as a public company have been focused on consolidation and re-positioning, particularly as we continue to navigate through difficult off-shore market conditions.

Compumedics is intensely focused on the third phase of its journey as a public company being a return to revenue growth based on a focus on the core business performance. In terms of the key growth opportunities for the core sleep, brain and ultrasonic blood-flow monitoring equipment businesses the Company believes these will come from the following primary areas:

1. The expansion of our core sleep-diagnostic and brain (neurological) monitoring businesses in Europe, specifically, Germany and France, with Germany well underway and France in the formative stages.
2. The entry of Compumedics into the global EEG long-term monitoring market with the world-wide release of its new innovative LTM device, Neuvo®. The Company has secured initial sales of the device in Europe and Australia and is currently pursuing several opportunities in the US.
3. The evolution of the home-sleep-testing (HST) market in the US as a result of changes to US private and government funding of HST and the expected growth in sales of small, limited channel sleep-diagnostic screener devices.

The Company has a number of specific actions and activities behind each of these growth platforms that it is currently progressing and more announcements on these will follow over the year ahead.

### The Company is ramping up its sales and marketing activities in Europe and has had some initial success with its direct sales strategy in Germany. What specifically does this mean for the Company?

Compumedics has for the last year sold directly its sleep-diagnostic systems to our German customers. Germany is Europe's largest, and the world's second biggest, market for sleep-diagnostic devices.

By selling directly the Company controls the selling process, installation and post-sales support. This gives the Company maximum control over the customer experience, including expectations and satisfaction, and, as a result, the reputation of our brand in these critical markets.

Compumedics' recent initial successes with this strategy will be complemented by the Company's expansion into France, another major market within the European zone.

To-date, Compumedics' penetration of both these markets within Europe has been prioritised as some of the key export imperatives. The Company believes it can add incremental revenues of between $3m to $10m per annum through the successful expansion into these two principal markets coupled with a number of smaller European territories.

### You have also mentioned the Neuvo® LTM product. Can you explain what this new product and market mean, for Compumedics?

The Company is currently entering the EEG long-term monitoring (LTM) market, a new and incremental market for Compumedics, with the launch of its innovative LTM product, Neuvo®. This opportunitiy presents Compumedics with a new incremental revenue stream within an established market, estimated with annual sales of about USD250m. Compumedics is well positioned to capture a 5% to 10% share of this global market.

*Operating cash positive, bank debt reduced further, sound balance sheet.*



### What impact do you think home-sleep-testing will have in the US and for Compumedics specifically?

The HST market in the US is currently estimated at approximately USD10m pa and growing at double digit rates. Compumedics has to-date focused on its traditional customer base but is currently implementing strategies to vigorously pursue the effects of this emerging market with a low-cost but leading technology device derived from the Company's existing Somté® device.

Compumedics is well positioned to establish a substantial share of this growing sleep-diagnostic market sector.

Compumedics is concurrently enhancing its presence in its traditional US sleep laboratory market with the launch of its new Grael® PSG sleep-diagnostic device, the world's first premium performance high-definition sleep diagnostic amplifier.

### Based on the above strategies and growth opportunities what is Compumedics' financial outlook?

Compumedics expects the identified key growth opportunities to deliver an increase in revenues and earnings in the current financial year. However, given the on-going uncertainty pervading the economic conditions of its key trading markets, particularly the US, the Company is not issuing guidance at this time.

Beyond the current financial year, the Company expects to escalate revenue growth rates, whilst maintaining earnings growth and continuing to strengthen the Company's balance sheet. This will be dependent on the external environment stabilising, particularly in its key off-shore markets. Additionally the Company expects external market conditions to gradually improve over time, particularly in the US and European territories.

Compumedics expects growth beyond the current financial year to result from a combination of:

- organic growth from the core businesses and the key growth opportunities identified,
- the expansion of the business into sleep-treatment markets, and
- opportunistic acquisitions that are identified as being complementary to the Company's existing product range and incremental to the financial performance of the Company.

Strategically, the Company is currently reviewing all business development options available to it to fully unlock the commercial potential within the range of technologies and products the Company currently has or is developing. The purpose of this review is to maximise the return to shareholders in the most appropriate manner from the Company's unique and broad spectrum of technologies and products.

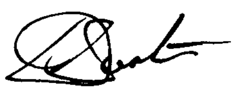
### It would appear that Compumedics is well positioned for future growth from its product platforms. In conclusion, why should potential investors consider Compumedics shares as an investment option?

Compumedics is a world-leading supplier of monitoring and treatment technology focused on three of the health-care industry's most exciting growth areas being sleep, brain and ultrasonic blood-flow monitoring.

Compumedics has successfully transitioned through two international acquisitions to a robust and sustainable financial position.

The Company as a solid balance sheet with minimal debt, and a net cash position at 30 June 2010. The Company is profitable and generating operating cash, with sales growth set to return as international market conditions allow.

Additionally the Company has extraordinary upside with a range of breakout business opportunities including sleep treatment.



***David Burton***
*Executive Chairman and Chief Executive Officer*
*Compumedics Limited*

# The Business of Compumedics



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

*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 neurodiagnostics 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 Australia based company with global operations and customers.*

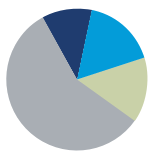

## Global Sleep Diagnostics market

**Description of the market:**
The global Sleep Diagnostics industry is comprised of diagnostic and therapeutic technologies and medicines. 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.

**Where we compete:**

- Asia 14%
- Europe 15%
- USA 56%
- Australia/NZ 15%

(Total Sales)



**Competitive Advantages:**
1 Innovative strength
2 Active involvement in sleep science globally
3 Market placement and momentum

**Current Market Share:**

6%

**Key drivers:**
To logically continue to expand our US and European sales and support infrastructure and to evolve the business to provide complete sleep medical solutions.

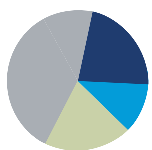
## Global Brain Research market

**Description of the market:**
Global Brain Research is 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.

**Where we compete:**

- Asia 27%
- Europe 23%
- USA 40%
- Australia/NZ 11%

(Total Sales)



**Competitive Advantages:**
1 Superior patented technology
2 Uncompromised system design
3 Unmatched innovation

**Current Market Share:**

28%

**Key drivers:**
The key driver for growth in brain research will be to maintain Neuroscan's preeminent technological lead and to back this by expanding the sales and support infrastructure to harness this expanding market opportunity.

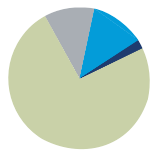
## *Global Neurodiagnostics market*

**Description of the market:**
Global Neurodiagnostics is the study of electrical activity in the brain, spinal cord, nerves and muscles for the diagnosis and monitoring of neurological based diseases. Tests may be performed in hospital outpatient departments, neurophysiology labs, operating theatres, intensive care units and private practice.

**Where we compete:**

- Asia 1%
- Europe 70%
- USA 13%
- Australia/NZ 16%

(Total Sales)



**Competitive Advantages:**
1 Complete range from clinical to research technologies
2 Uncompromised system design
3 Highest industry quality standards

**Current Market Share:** less than 1%

**Key drivers:**
The key drivers for achieving growth in this market are to have technologically superior products that differentiate Compumedics from the existing competition. With the current products being complemented by a completely new long-term monitoring device in 2010, this will be achieved.



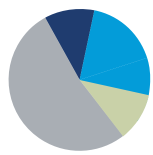
## *Global Neuromedical Supplies market*

**Description of the market:**
The Neuromedical Supplies market comprises sleep consumables, brain research consumables and neurodiagnostic consumables. Typically, items sold in these markets comprise electrodes, sensors, head caps, gels, respiratory bands and the like. Items replacement cycles range from disposable to replacing once every six months.

**Where we compete:**

- Asia 11%
- Europe 10%
- USA 51%
- Australia/NZ 28 %

(Total Sales)



**Competitive Advantages:**
1 Existing installed base
2 Proprietary products
3 Growing distribution network

**Current Market Share:** 1%

**Key drivers:**
The key drivers to growth in this market are marketing initiatives to increase our brand awareness followed by on time delivery and product quality and consistency.

## *Global Doppler Ultrasound market*

**Description of the market:**
The Doppler Sonography technique utilises sound frequencies to measure the blood flow conditions in vessels and evaluate haemodynamics by using high-quality diagnostic and monitoring systems.

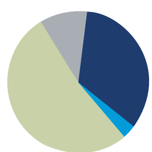
DWL Doppler systems are used in a wide range of specialist branches of medicine including neurology, neurosurgery, cardio- and vascular surgery, anesthesia, intensive treatment, internal medicine, angiology and radiology.

The products are purchased by private practices and clinics, hospitals (both public and private), and by major universities, national research institutes and corporate research laboratories around the world.

**Where we compete:**

- Asia 36%
- Europe 52%
- USA 10%
- Australia/NZ 2%

(Total Sales)



**Competitive Advantages:**
1 Full Digital Doppler Technology
2 Bilateral Doppler
3 Multi-Range Doppler Technology
4 Physiological Tests
5 Emboli Differentiation & Multi-Frequency probes
6 Highest Doppler sensitivity
7 Best signal to noise ratio
8 Reference gates
9 High and low temperature endurance systems
10 Space endurance systems

**Current Market Share:** less than 35%

**Key drivers:**
- Digital Doppler Technology
- New application areas for the use of TCD
- Expanding market opportunities by new Health Care Regulations for the use of TCD
- Expanding Sales and Support Infrastructure

# Clients of Compumedics



## Sleep Monitoring

**Products provided**

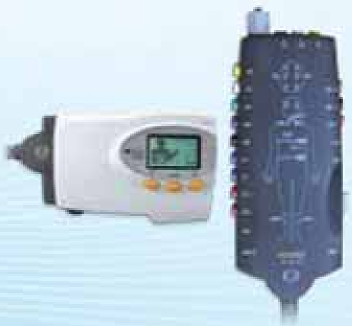
- Grael™ – the world's first High Definition PSG/EEG
- Siesta™ PSG – the ultimate in wireless Sleep recording systems
- Somté™ PSG – unique holter style full PSG system
- Somté™ – unique holter style cardio-respiratory system
- Profusion PSG – the next generation world class sleep diagnostics software
- Profusion Nexus™– laboratory management system
- E-Series™ EEG/PSG – network ready laboratory and portable Sleep system
- Safiro™ PSG – ideal for ambulatory applications in sleep

**Key Clients**

- Austin Repatriation & General Hospital (Aust)
- Monash Medical Centre (Aust)
- Royal Prince Alfred Hospital (Aust)
- Sir Charles Gairdner Hospital (Aust)
- Royal Children's Hospital (Aust)
- Hennepin County Hospital (USA)
- Redmond County Hospital (USA)
- NASA (USA)
- US National Institutes of Health - Sleep Heart Health Study (USA)

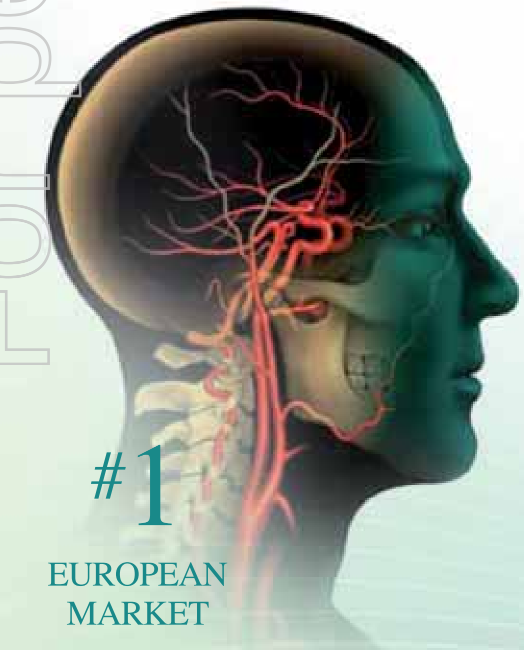
Compumedics Greal™

Compumedics Siesta™



Compumedics Somté™ PSG

## Ultrasonic Blood Flow Monitoring




**Products Provided**

- Doppler-Box: Digital Doppler device including Doppler M-Mode
- EZ-Dop®: Very compact and portable Doppler device for routine diagnostics
- Multi-Dop® T Series: Portable Doppler device with upgradeable bilateral monitoring
- Multi-Dop® X Series : All around Doppler device with emboli detection
- Embo-Dop®: Doppler device for emboli differentiation
- Hemo-Dop®: Doppler device with Doppler guided haemorrhoid arterial ligature technique (DG-HAL)

**Key Clients**

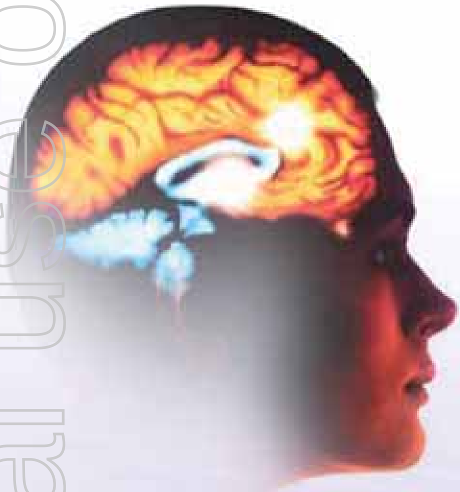
- Dr. Rune Aaslid, PhD, Berne, Switzerland
- Prof. Andrei V. Alexandrov, MD, University of Texas, Houston, USA
- Prof. David Russell, MD, PhD, The National Hospital Oslo, Norway
- Dr. David W. Newell, MD, University of Washington, Seattle, USA
- Prof. Geoffrey Donnan, MD, Austin & Repatriation Medical Center, Melbourne, Australia
- Prof. Laszlo Cziba, MD, Medical School of Debrecen, Hungary
- Prof. Erich B. Ringelstein, MD, University of Munster, Germany
- Prof. Michael G. Hennerici, MD, University of Mannheim, Germany

EZ Dop™


Doppler Box™

# Brain Monitoring

- Clinical
- Research



GLOBAL MARKET
POSITION BEING BUILT

Exciting opportunities exist in the massive Neuro-diagnostics market worth:

$920M p.a.

**Products Provided**

- Neuvo® LTM – the new standard in LTM & epilepsy monitoring
- E-Series™EEG – network-ready laboratory and portable EEG solution
- Safiro® EEG – a perfect solution for ambulatory applications
- Siesta® EEG – the ultimate in wireless capabilities in EEG
- SynAmpsRT™ – world's most powerful and advanced amplifier
- Scan™ data acquisition software
- Curry® multi-modal neuroimaging software
- MagLinkRT™ system for EEG recording in the fMRI environment
- Stim™ audio visual stimuli presentation software
- Source™ offers source localisation capabilities
- Electric Source Imaging™ system to measure and analyse EEG, EP and ERP signals

**Key Clients**

- Flinders Medical Centre (Aust)
- Austin Repatriation & General Hospital (Aust)
- St. Vincent's Hospital (Aust)
- Royal Children's Hospital (Aust)
- University of Melbourne (Aust)
- University of Sydney (Aust)
- Swinburne Centre for Applied Neuroscience (Aust)
- University of California, Davis (USA)
- Pediatric Epilepsy Center (USA)
- Yale School of Medicine (USA)
- Albert Einstein College of Medicine (USA)
- Harvard Medical School (USA)
- Stanford University School of Medicine (USA)
- Oxford University (UK)
- Tokyo University (Japan)
- Peking University (China)



Compumedics CURRY®

Compumedics Neuvo®

# NeuroMedical Supplies®

GLOBAL MARKET
POSITION BEING BUILT

**Products provided**

Our comprehensive range of products produced for this market are:

- Airflow Sensor
- Chest Sensor
- Electrodes
- EMG Needles
- Leads
- Snoring Monitor

**Key Clients**

- Winmar Diagnostics (USA)
- Maine Medical Center (USA)
- Providence Medical Center (USA)
- Landauer Medical (USA)

# Sleep Monitoring

*Compumedics was founded with the establishment of computerised sleep diagnostics and today sleep deprivation is recognised as one of the most serious modern day health epidemics. Sleep disorders such as apnoea have been implicated as a leading causation of two of today's principal causes of death being cardiac arrest and stroke.*

*"Compumedics provides us with unrivaled flexibility and power in its PSG acquisition, scoring and reporting systems. The sales and service staff are second to none in customer satisfaction and are just as reliable as their equipment. I just hope that our competition doesn't catch on!"*

Luis A. Garcia, RPSGT
Clinical Director LMI Sleep Diagnostics Division
Landauer Metropolitan Homecare

Compumedics Grael™ - The world's first High Definition PSG/EEG.

Number of known classified sleep disorders:

**85**

**What is a Sleep Disorder?**

A sleep disorder is a medical condition that affects a person's ability to have a 'normal' night's sleep. There are 85 classified sleep disorders ranging from snoring, obstructive sleep apnoea and insomnia to narcolepsy. Identified in 1966, obstructive sleep apnoea (OSA) is the most common form of sleep disorder and is a serious and potentially life threatening condition. Of the estimated 40 million Americans believed to suffer from treatable sleep disorders it is thought that 50% suffer from OSA.

**How are Sleep Disorders Diagnosed?**

General practitioners will refer patients who suffer from a variety of sleep-related symptoms (severe snoring, daytime tiredness, general fatigue and poor sleep patterns) to sleep physicians or respiratory physicians. At the specialist's recommendation, the patient may need to undertake a sleep study either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. In home studies the patient is connected to a portable sleep diagnosis device prior to sleep. For 8 to 10 hours, breathing patterns, leg movements, eye movements, patient position and responses to light, sound and temperature are monitored using ECG, EEG, EMG, $SaO_2$, $TcCO_2$ and CPAP (a Continuous Positive Air Pressure device). High-resolution monitors display on-line and off-line physiological waveforms as well as trend analysis data.

Compumedics Somté™ PSG Vest - for easy set-up and patient comfort.

Compumedics Somté PSG™ - the next generation of Somté recorders. Full PSG... absolutely anywhere.

Compumedics Profusion PSG3™ - the next generation of world class PSG acquisition, review and analysis software.

### How Common are Sleep Disorders?

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

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

Certain segments of the population appear to be at more risk of developing sleep disorders. Typical sufferers are middle-aged males, with a history of severe snoring. There are also certain risk factors that increase the chance of developing sleep disorders including:

– Obesity
– Ageing
– Genetic predisposition
– Smoking
– Alcohol consumption

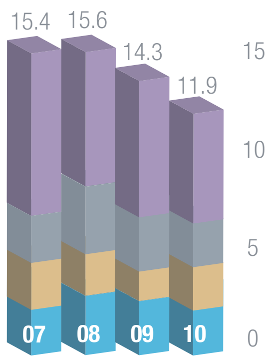
Many of these risk factors reflect the characteristics of modern society. It is anticipated that these risk factors, combined with the increasing awareness of sleep disorders within the medical community, will continue to generate substantial growth in the sleep device market.

### Links to Other Diseases

Sleep disordered breathing is more common in people with high blood pressure, heart disease, diabetes, stroke and a number of other common medical conditions. It is thought that the lowering of blood oxygen during sleep and the frequent apnoeic episodes contribute to vascular, heart and brain dysfunction (such as stroke and memory impairment) for people with these medical conditions. Sleep disordered breathing is also more common in people with spinal cord injury and may contribute to daytime dysfunction and excessive sleepiness in this group. There is also a newly discovered link between sleep disordered breathing and pre-eclampsia in pregnancy and it may be that upper airway obstruction disrupting sleep leads to the high blood pressure in this condition.

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

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




Sleep Monitoring revenues by region $m

# Brain Monitoring

*Compumedics through the acquisition of the Neuroscan business in 2002 expanded its business to brain research and neurological diagnostics. Both markets are highly complementary to Compumedics sleep business. Compumedics has focused on leveraging Neuroscan's high end brain research technology to a more clinical application and the outcome of this is the recently released Neuvo® long term monitoring device.*

*"As Compumedics users of some five years standing, we have been consistently impressed by the reliability and ease of use of our systems. Staffing changes and budget restraints have challenged us in many ways but we have not experienced any downtime and have been able to carry out "on the job" training with great success.*

Debra Anderson R.EEG T. Shands Hospital
University of Florida, Gainesville

Compumedics Neuvo™ - the ultimate long-term EEG monitoring system

Compumedics Profusion EEG4™ - the next generation EEG acquisition and analysis software

### What is clinical Neurodiagnostics?

It is the study of electrical activity in the brain and spinal cord for the diagnosis of neurological-based disorders. The methods used to study clinical neurophysiology include Electroencephalography (EEG), Electromyography (EMG), Nerve Conduction (NCS), and Evoked Potentials (EP). These tests may be performed in hospital outpatient departments, neurophysiology labs, operating theatres, intensive care units, epilepsy centers and private practice offices.

EEG is used in the evaluation, monitoring, diagnosis, and/or management of the following brain related issues: Epilepsy, Traumatic Brain Injury, Infarction, and Intracerebral Hemorrhage as well as a host of research purposes.

EEG is an important growth area and part of the "journey" for Compumedics: EEG is the largest segment of the world market for Neurodiagnostics. In 2002 the world market for EEG devices alone, was estimated at USD 46m and this is expected to grow to approximately USD 90m in 2010.

The primary markets for these devices are Europe and America with approximately 40% of the world market. However, Asia Pacific and Latin American markets are also expected to grow at a strong rate over the next 10 years.

EEG is inexpensive and non-invasive. It is virtually pain and risk free and is one of the most benign tests for monitoring brain function in the evaluation of epilepsy.

Growth in neurodiagnostics is being driven by the prevalence of reliable technology and performance requirements of the EEG as a clinical instrument in surgical therapy, known as Intraoperative Monitoring (IOM), and for extended epilepsy monitoring or Long Term Monitoring (LTM).

Epilepsy is a chronic neurological disorder that affects 1% of the world population. Most of the health care costs associated with epilepsy are attributable to those patients with medically intractable seizures. Many of those disabled by epilepsy may be candidates for surgical therapy. Note: in 2003 there were an estimated 100,000 – 200,000 potential surgical candidates in the USA alone. Early and successful surgical intervention might prevent or reverse disabling consequences of uncontrolled seizures during critical periods of adolescence and adulthood.

### What is brain research?

Brain research is the study of the brain's functionality, using quantitative measures of EEG to supplement traditional EEG findings. With the advent of high speed digital information processing and statistical analysis, extracting quantitative measures of EEG to assess the status of brain function allows access to aspects of EEGs that cannot be appreciated visually. Theoretically, such techniques incorporated the heuristics of visual analysis of EEG but move it to a state of processing beyond "the eye of the beholder". There are a variety of quantitative analysis techniques ranging from simple surface mapping of recorded EEG activity, to complex models that accurately define the source of these electrical activations in a three dimensional model of the head. Advanced brain source reconstruction techniques highlight regions of interest to the neuroscientist in understanding brain function and may assist in clinical diagnosis and treatment planning of some medical conditions.

### Why is this important to Compumedics?

Leadership in objective and quantitative methods of EEG analysis and other brain research activities is important not only in terms of maintaining Neuroscan's pre-eminent position in this market and therefore its dominant market share, but to also lead the sleep and neurodiagnostic business technologies into the future. The Neuroscan Brain Research business is focused on working with key academics and researchers around the world in the pursuit of new neurophysiology research tools that have the potential to open up new clinical diagnostic solutions for known neurological disorders. The Neuroscan Brain Research business works with key researchers and industry leaders who write the research articles that form the basis of knowledge for neurodiagnostic clinical practices for the next 10-15 years.

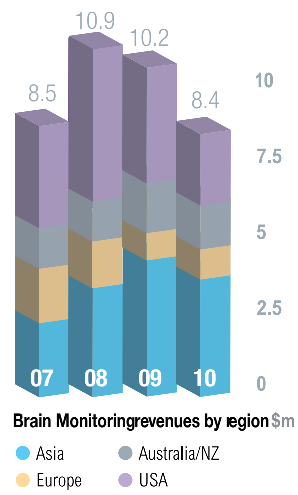
The majority of these key decision makers use Compumedics Neuroscan products.

Or to put it practically, more than 1,400 physiological research laboratories across the world use Compumedics Neuroscan brain research products. These laboratories include prestigious laboratories such as: Albert Einstein College of Medicine (USA)– Stanford University School of Medicine (USA)– Oxford University (UK)– The Mayo Clinic (USA)– Yale School of Medicine (USA)– University of Melbourne (Aust)– Tokyo University (Japan)– University of Sydney (Aust). It is these research institutes that will drive clinical practices in the future, all using Compumedics Neuroscan equipment in their investigations. This gives our neurodiagnostic business a significant competitive advantage and will ensure the neurodiagnostic functionality in our sleep diagnostics also remains leading edge.

Xegis™ Forté System - Compumedics' new EMG / EP Workstation.

CURRY6™ - Compumedics' advanced Multi-Modal Neuroimaging software.

SynAmps RT™ - sets a new standard in EEG and ERP amplifier technology.

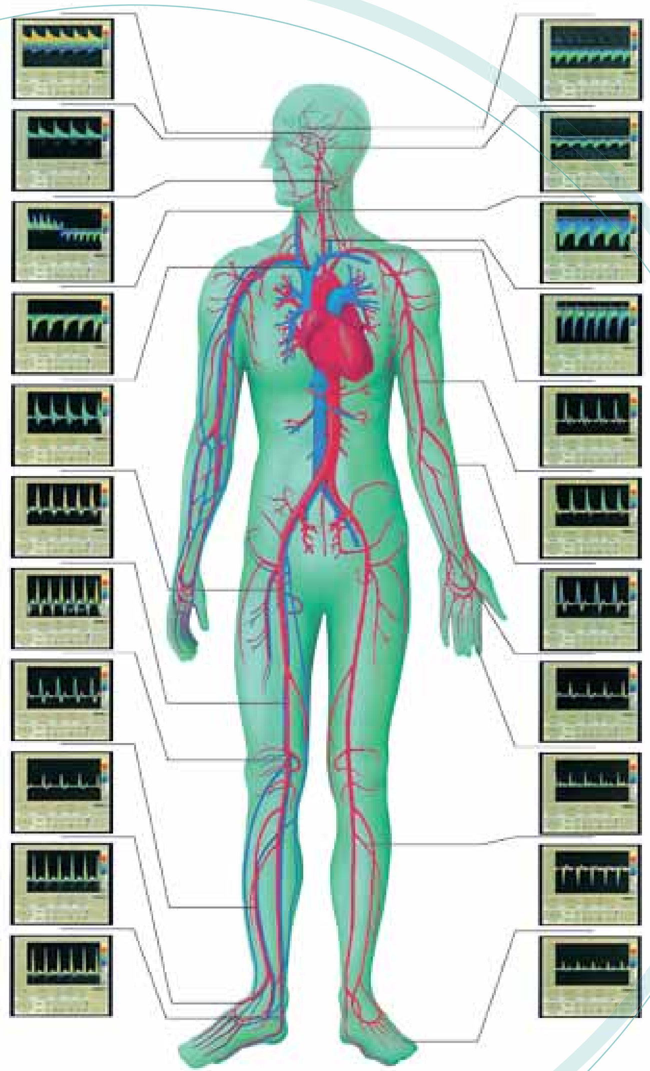


# Ultrasonic Blood Flow Monitoring

COMPUMEDICS DWL

*To grow the business by innovations and developments in technology and products and by capitalising on opportunities in application fields for practicable routine Doppler Sonography, Neuro-monitoring and Neuro-protection and into stroke treatment opportunities.*

Transcranial Doppler Sonography using the Multi-Dop® Pro.



### What is Doppler Sonography?

The Doppler Sonography technique utilises sound frequencies to measure the blood flow conditions in vessels and evaluate haemodynamics by using high-quality diagnostic and monitoring systems.

**Transcranial** (1 and 2 MHz), **extracranial** (4 and 8 MHz), **peripheral** (4 and 8 MHz) and **microvascular** (16 MHz) arteries and veins, can be carried out using DWL Doppler systems in either **continuous wave** (cw) or **pulsed wave** (pw) modes.

In cw mode, one frequency is continuously transmitted and received, in pw mode the probe emits pulses of ultrasound and receives the reflected signals in between, thus a depth selection is possible. Transcranial Doppler sonography is not possible without depth selection.

Multi-Dop® X
Digital high-end system for clinical routine and monitoring examinations, special function tests and emboli detection.

EZ-Dop®
Compact, portable and modular Doppler device for routine diagnostics.

## Different kinds of Doppler Sonography

**Transcranial Doppler Sonography**
... is carried out using 1 or 2 MHz probes in pw mode only. The arteries of the Circle of Willis and the A. basilaris are examined.

**Extracranial Doppler Sonography**
Using the 8 MHz probe, the artery to the eye (A. supratrochlearis) is examined. All other brain supplying arteries are typically examined using the 4 MHz probe.

**Peripheral Doppler Sonography**
The arteries and veins of the pelvis and upper thighs are examined using the 4 MHz probe.

In other peripheral areas the 8 MHz probe is normally used according to the constitution of the patient.

**Microvascular Doppler Sonography**
... is carried out using a 16 MHz probe. The neuro or vascular surgeon places the probe directly onto the exposed blood vessel and measures its blood flow. The ability to sterilise the probes is very important in these cases.

## Doppler Sonography Diagnostic/Application

Routine examinations are carried out to diagnose ...

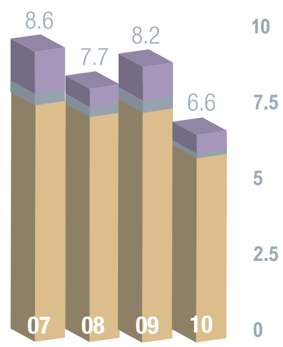
- cerebral and peripheral circulatory problems
- cerebral and peripheral vessel stenosis and occlusions
- extracranial and intracranial aneurysms
- inflammatory vessel diseases e.g. vasospasms
- vascular diseases e.g. varicosis, thrombophlebitis

or to perform

- functional tests of the cerebral hemodynamics
- pre-operative determination of stroke risks
- diagnosis of brain death, prognoses for skull-brain trauma
- post operative control examinations e.g. after carotid operations
- intra-operative examinations in vessel surgery

Doppler monitoring examinations for

- Doppler functional tests e.g. orthostasis
  - dynamic autoregulation
  - tipper table examinations
  - $CO_2$ – reactivity
  - visual stimulation
  - cognitive stimulation
  - emboli detection




Ultrasonic Blood Flow Monitoring revenues by region $m

- Monitoring during surgery
  - vessel surgery
  - reconstructions of aorta arch
  - organ transplantations
- Monitoring in intensive care units
  - vasospasms after sub-arachnoidal bleedings
  - after skull-brain trauma
  - hydrocephalus and meningitis
  - monitoring in stroke units e.g. indication to use Lyse and control during application of Lysing drugs.

# NeuroMedical Supplies

*Expand this business segment into a leading provider of a comprehensive range of consumable items to serve not only our installed customer base but the entire sleep and neurodiagnostics industry.*

*Before using QuickCel we had problems with our youngest subjects, under the age of 3 or 4, sitting through the tasks. With the QuickCel the children are able to sit through the cap application with no problem. This allows for much longer testing sessions and overall clearer data. A happy child means a happy parent. As a result, not only are the testing sessions cleaner and easier, but we've found that parents tell their friends and suddenly our recruiting is up! We've been incredibly happy using the QuickCels.*

Mandy J. Maguire, Ph.D.
Assistant Professor
The University of Texas at Dallas / Callier Center for Communication Disorders
School of Behavioral and Brain Sciences

**What is NeuroMedical Supplies?**

NeuroMedical supplies is a leading manufacturer and full-range distributor of supplies and accessories for Sleep and Neurodiagnostic laboratories, research facilities and transcranial Doppler professionals.

As innovators in our field, we understand how vital accessories, sensors and disposable items are in the diagnosis and study of sleep, the nervous system and the brain. Through our intimate

Installed Compumedics/ Neuroscan/DWL sites globally

**over 14,000**


Summit IP™ – Respiratory effort sensor system using true inductive plethysmography

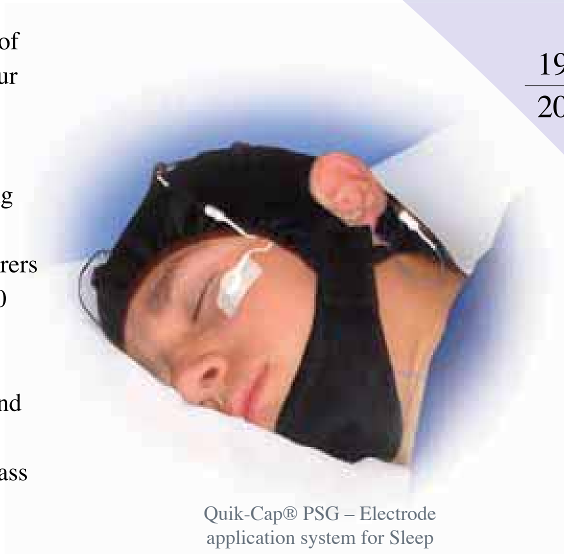
QuikCell™ – Unique liquid electrolyte application system



understanding of this area, we manufacture and procure supplies and accessories that complement our system standards and are of the highest quality. Our goal is to be a single source provider for every conceivable customer need.

NeuroMedical supplies endeavours to provide our clients with competitively priced supplies and accessories for all of their sleep and neurodiagnostic needs. We are constantly expanding our product offerings and looking for creative and effective ways to enhance customers' purchasing experience with our company. Just in time delivery, annual contract purchase discounts and per-patient customised pricing bundles are a few of the initiatives we pursue to enhance our clients productivity while minimising their costs.

In addition to seeking out and selecting the best available supplier-partners, Compumedics designs and manufacturers its own line of products from our 6000 sqm facility in Melbourne, Australia. Our operations and products are regularly audited for FDA, CE, ISO and ETL standards, to ensure that our customers receive consistent world-class products and services.



Quik-Cap® PSG – Electrode application system for Sleep Diagnostics

Quik-Cap® PSG is the first universal application system for sleep diagnostics. Compatible with virtually all manufacturers systems, the Quik-Cap® PSG offers rapid placement, consistency for improved quality control, comfort for the patient and quick easy clean-up to enhance overall lab productivity.

US Market for Neuromedical supplies:

**over $250M**

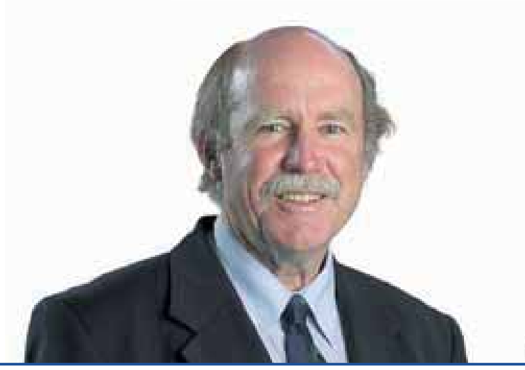
Number of beds installed with Compumedics sleep equipment globally:

**over 4,000**

# Board of Directors:

*Compumedics is committed to developing a world class working environment that rewards individuals for the contributions they, and their teams, make to the business each year. Compumedics is proud of the diversity of its people, and continues to develop its people infrastructure under the guidance of the Senior Management Team and the Board.*





**Mr David Burton**

Executive Chairman, CEO

David Burton, Ph.D. 51, is the founder, Chairman and CEO of Compumedics. After establishment of Compumedics the company was listed on the ASX in 2000, and has been awarded 24 awards for design, innovation, business and exports including the Australian Exporter of the Year in 1998 and Small Business of the Year in 1999.

Dr. Burton started his career at the Bureau of Meteorology, where he studied radar techniques and electronic equipment. He founded Linear Transfer Pty Ltd, which designed, manufactured and marketed high fidelity recording and sound equipment. He was awarded an Associate Diploma in Engineering (Electronics) by the Royal Melbourne Institute of Technology and a Ph.D. (Eng. Sc.) by Monash University, Melbourne (Australia). Dr. Burton's engineering background includes the design and project management of the Compumedics' first sleep laboratory and portable sleep systems. Dr. Burton has authored fifteen patents or patent applications that form part of Compumedics' key intellectual property.

Dr. Burton has served as an advisor for the Victorian Government as a member of the Council for Knowledge, Innovation, Science and Engineering (KISE), being the Victorian Government's key advisory body on issues and policies focusing on science and innovation.

Dr. Burton was presented the Clunies Ross National Science and Technology Award in 2002 for his development of innovative sleep monitoring technology. He was awarded the 2003 Centenary Medal by the Prime Minister and Governor General of Australia for outstanding contribution to science and technology, particularly public science policy. In 2003 Dr. Burton was awarded the Ernst & Young Victorian Entrepreneur of the year award for technology, communications, E-commerce and life sciences. In 2007 Mr Burton was inducted into the Victorian Manufacturing Hall of Fame in recognition of manufacturing achievements and world-wide medical device exports.

Dr. Burton continues to serve as a Victorian Government adviser as a Board member of the Design Victoria (2008- ).

**Professor Graham Mitchell AO**

Non-Executive Director

Professor Mitchell, 69, 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 Primary Industries. He is also a member of the World Health Organisation committee for special programs in tropical diseases.

**Mr Alan Anderson**

Non-Executive Director

Mr Anderson, 54, 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:*



**David Burton**
Executive Chairman, CEO

**David Lawson**
Chief Financial Officer
& Company Secretary

**Warwick Freeman**
Chief Technology Officer



**Kerry Hubick**
Trademark, Patent
& General Legal Attorney

**Andrew Kegele**
Business-Director, Australia
and New Zealand

**Christoph Witte**
General Managing Director
DWL Compumedics Germany GmbH

**Curtis Ponton**
Vice President, Chief Scientist,
Neuroscan

# Compumedics Limited

ABN 95 006 854 897

## Annual Financial Statements

for the year ended 30 June 2010

# Contents

# Corporate Information

This annual report covers Compumedics Limited as a consolidated entity comprising Compumedics Limited and its subsidiaries. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 2 to 14. The directors' report is not part of the financial report.

| | |
|---|---|
| **Directors** | Dr. David Burton<br>Dr. Graham Mitchell<br>Mr. Alan Anderson |
| **Secretary** | Mr. David Lawson |
| **Executive team** | **Executive Chairman, CEO**<br>David Burton<br>**Chief Financial Officer**<br>David Lawson<br>**Chief Technology Officer**<br>Warwick Freeman<br>**Legal Counsel & Patent Attorney**<br>Kerry Hubick<br>**Business Director, Australia and New Zealand**<br>Andrew Kegele<br>**Vice President - Sleep Sales, USA**<br>Jeff Kuznia<br>**General Managing Director DWL Compumedics Germany GmbH**<br>Christoph Witte<br>**Vice President, Chief Scientist, Neuroscan**<br>Curtis Ponton |
| **Notice of annual general meeting** | The annual general meeting of Compumedics Limited<br>**will be held at** Compumedics Limited, 30-40 Flockhart Street, Abbotsford VIC 3067<br>**time** 10.30am<br>**date** Thursday 28 October 2010 |
| **Principal registered office in Australia** | 30–40 Flockhart Street<br>Abbotsford VIC 3067<br>Telephone: (03) 8420 7300 |
| **Share registers** | Link Market Services Limited<br>Level 4<br>333 Collins Street<br>Melbourne VIC 3000<br>Phone: 1300 554 474 |
| **Auditor** | Ernst & Young<br>8 Exhibition Street<br>Melbourne VIC 3000 |
| **Stock exchange listings** | Compumedics Limited shares are listed on the Australian Stock Exchange. Compumedics' ASX code is CMP. |
| **Website address** | www.compumedics.com |

# Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

The following persons were directors of Compumedics Limited during the whole of the financial year and up to the date of this report:

Mr. David Burton
Dr. Graham Mitchell
Mr. Alan Anderson

### Principal activities

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

### Dividends - Compumedics Limited

The directors have not declared a dividend in the current financial year (2009: nil).

### Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects and a summary of consolidated revenue and results by operating segments are set out below:

| | **Sales Revenue** | | **Segment Results** | |
|---|---|---|---|---|
| | **2010 $000** | **2009 $000** | **2010 $000** | **2009 $000** |
| USA | 11,212 | 15,123 | (1,897) | (2,525) |
| Asia Pacific | 11,428 | 13,164 | 2,375 | 4,522 |
| Europe | 9,725 | 10,085 | (310) | 130 |
| Total continuing operations | **32,365** | **38,372** | **168** | **2,127** |
| Other income | | | 246 | 600 |
| Profit before income tax expense | | | 414 | 2,727 |
| Income tax benefit | | | - | - |
| Profit for the year | | | **414** | **2,727** |

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

*(a) USA*

Total US revenues were USD9.88m (AUD11.2m) for the year ended 30 June 2010 compared to USD11.3m (AUD15.1m) for the prior year. The decline in sales reflects continuing difficult market conditions for capital equipment medical diagnostic devices. The declines were partially offset by increases in technical service revenues and Trans cranial Doppler (DWL) revenues.

*(b) Asia Pacific*

Australian and Asia Pacific revenues for the year ended 30 June 2010 were $11.4m compared to $13.2m for the prior year. Revenues in this region were primarily impacted by lower sales in Australia, whilst Asia-based sales were broadly in line with the prior year, reflecting consistent trading conditions year-on-year in those markets.

*(c) Europe*

European revenues for the year ended 30 June 2010 were €6.2m (AUD9.7m) compared to €5.5m (AUD10,.1m) for the prior year reflecting better trading conditions generally in Europe and particularly in Germany, particularly as the Company had €0.7m orders on hand at 30 June 2010 that will ship in the new financial year.

### Significant Changes in State of Affairs

There have been no other significant changes in the state of affairs of the Group during the financial year.

### Matters subsequent to the end of the financial year

The directors are not aware of any events occurring subsequent to reporting date that would materially affect this report.

### Likely developments and expected Results

The focus for the Group will be on continuing the profitable growth of the Group, to further capitalise on the larger and growing customer base of the Group.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### Environmental Regulation

The Group is not subject to significant environmental regulation in respect of its activities.

### Information on directors

***David Burton Chairman and Chief Executive Officer, Age 51.***

*Experience and expertise*
Founder and major shareholder of Compumedics. Extensive experience in the development, design, manufacture and sale of medical devices and the development of the business.

*Other current directorships*
Intellirad Pty Ltd
D&DJ Burton Holdings Pty Ltd
Electro Molecular Pty Ltd

*Former directorships in last 3 years*
None

*Special responsibilities*
Chairman of the Board
Member of remuneration committee

*Interests in shares and options*
100,822,097 ordinary shares in Compumedics Limited
Nil options over ordinary shares in Compumedics Limited

***Dr. Graham Mitchell AO Independent Non-Executive Director, Age 69.***

*Experience and expertise*
Substantial scientific and academic qualifications coupled with significant directorship experience.

*Other current directorships*
Antisense Therapeutics Ltd
AgVic Services Pty Ltd
Adelaide Research and Innovation Pty Ltd
Avipep Pty Ltd

*Former directorships in last 3 years*
Geoffrey Gardner Dairy Foundation

*Special responsibilities*
Member of the Remuneration Committee

*Interests in shares and options*
None

***Alan Anderson Non-Executive Director, Age 54.***

*Experience and expertise*
Extensive legal experience particularly in intellectual property litigation in both defence and offence.

*Other current directorships*
None

*Former directorships in last 3 years*
None

*Special responsibilities*
Chairman of the Remuneration Committee
Chairman of the Audit Committee

*Interests in shares and options*
89,665 ordinary shares in Compumedics Limited

**Company secretary**

The company secretary is Mr. D. F. Lawson, Chartered Accountant. Mr. Lawson was appointed to the position of Company Secretary in 2000. Before joining Compumedics Limited he held various financial positions with another listed public company for 8 years.

**Meetings of directors**

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

| | | | **Meetings of committees** | | | |
|---|---|---|---|---|---|---|
| | **Full meetings of directors** | | **Audit** | | **Remuneration** | |
| | **A** | **B** | **A** | **B** | **A** | **B** |
| Mr. David Burton | 10 | 10 | 2 | 2 | 1 | 1 |
| Dr. Graham Mitchell | 10 | 10 | - | - | 1 | 1 |
| Mr. Alan Anderson | 10 | 10 | 2 | 2 | 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

## Remuneration report (audited)

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

### A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.
Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and
- delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

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

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

#### *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Non-executive directors do not receive share options.

## A Principles used to determine the nature and amount of remuneration (continued)

*Directors' fees*
The current base remuneration was last reviewed with effect from 1 July 2007. The Chairman's remuneration is inclusive of committee fees while other non-executive directors who chair a committee receive additional yearly fees.

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

The following fees have been applied:

| | **From 1 July 2009 to 30 June 2010 $** | **From 1 July 2008 to 30 June 2009 $** |
|---|---|---|
| **Base fees** | | |
| Chairman | Nil | Nil |
| Other non-executive directors | 30,000 | 30,000 |
| | | |
| **Additional Fees** | **5,000** | **5,000** |
| Audit committee – chairman | 2,500 | 2,500 |
| Remuneration committee – chairman | 5,000 | 5,000 |
| Remuneration committee – member | 2,500 | 2,500 |

***Executive pay***
The executive pay and reward framework has 5 components:
- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through participation in the Compumedics Limited Employee Option Plan
- Other remuneration such as superannuation, and
- Long-term equity linked incentive program specifically for the head of the Medical Innovations Division.

The combination of these comprises the executive's total remuneration.

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

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

There is no guaranteed base pay increases included in any executives' contracts.

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

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

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

## A Principles used to determine the nature and amount of remuneration (continued)

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target bonus opportunity is 60% of base pay.

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

For the year ended 30 June 2010, the KPIs linked to short term incentive plans were based on Group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the executive team.

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

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

The STI target annual payment is reviewed annually.

*Long-term incentives*
The Company has instigated a long-term incentive program for one executive. At 30 June 2010 no other long-term incentive plans were in place for any other Director or key management personnel.

<u>Medical Innovation Long Term Performance Plan (MI-LTPP)</u>
The Group has formalised and gained approval at last year's annual general meeting for the MI-LTPP for the head of the Medical Innovations Division ("Division Head"), who is currently the Executive Chairman. The rationale of the MI-LTPP is to reward the Division Head where future commercial projects are met on the following criteria:

1. The future commercial project is based on innovative, novel and patentable technology;
2. The patented technology is supplementary to, but consistent with, the ongoing businesses of Compumedics Limited; and
3. There is significant risk attached to the development of the intellectual property or technology and the commercialisation thereof.

On the basis that these 3 criteria exist, and, determined by the Remuneration Committee, a commercial project will be eligible for inclusion under the MI-LTPP. At 30 June 2010 the Remuneration Committee has approved several projects that are eligible under the MI-LTPP subject to the parameters discussed below.

The parameters of the MI-LTPP include that the Division Head will be entitled to an incremental 8% equity in any subsidiary entities of the Company that develop projects that meet all of criteria 1 to 3. The 8% equity will only deliver value to the Divisional Head where value is created for the whole company, in which case the Company receives 92% of the incremental value created.

The entitlement will be calculated after repayment of any initial costs of establishment or development costs outlaid by Compumedics. The Directors have sought and gained expert advice that the entitlements under the plan form part of remuneration for the purposes of accounting standards and are fair and reasonable, having regard to relevant circumstances.

There has been no equity awarded under the MI-LTPP to the Division Head during the year ended 30 June 2010.

<u>Compumedics Employee Option Plan</u>

Information on the Compumedics Option Plan is set out in section D and note 28 of the Financial Statements.

## B Details of remuneration

*Amounts of remuneration*
Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Compumedics Group are set out in the following tables.

The key management personnel of the Group are the directors of Compumedics Limited (see pages 2 to 3 above) and those executives that report directly to the Chief Executive Officer being:

- David Lawson
- Warwick Freeman
- Kerry Hubick
- Andrew Kegele
- Jeff Kuznia
- Christoph Witte
- Curtis Ponton

***Remuneration of key management personnel and other executives of the Group***

| **2010** | **Short-term benefits** | | | **Post-employment benefits** | | **Long term benefits** | **Share based payments** | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees $** | **Cash bonus $** | **Non monetary benefits $** | **Super-annuation $** | **Retirement benefits $** | **Long service leave $** | **Options $** | **Total $** |
| *Non-executive directors* | | | | | | | | |
| Alan Anderson | 40,000 | - | - | - | - | - | - | 40,000 |
| Graham Mitchell | 30,023 | - | - | 2,477 | - | - | - | 32,500 |
| **Sub-total non-executive directors** | **70,023** | **-** | **-** | **2,477** | **-** | **-** | **-** | **72,500** |
| *Executive director, CEO and Chairman* | | | | | | | | |
| David Burton | 352,821 | - | - | - | - | - | - | 352,821 |
| *Other key management personnel* | | | | | | | | |
| David Lawson * | 202,201 | - | - | 18,198 | - | 9,217 | - | 229,616 |
| Warwick Freeman * | 222,871 | - | - | 19,981 | - | 4,259 | - | 247,111 |
| Kerry Hubick | 165,100 | - | - | 15,721 | - | 4,942 | - | 185,763 |
| Andrew Kegele* | 147,000 | 41,902 | - | 15,131 | - | 2,484 | - | 206,517 |
| Jeff Kuznia | 193,324 | - | 4,642 | - | - | - | - | 197,966 |
| Christoph Witte* | 219,491 | - | 16,420 | 23,648 | - | - | - | 259,559 |
| Curtis Ponton* | 190,287 | 7,661 | 11,780 | - | - | - | - | 209,728 |
| **Total key management personnel compensation** | **1,763,118** | **49,563** | **32,842** | **95,156** | **-** | **20,902** | **-** | **1,961,581** |

* denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

## B Details of remuneration (continued)

| 2009 | Short-term benefits | | | Post-employment benefits | | Long term benefits | Share based payments | |
|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Non monetary benefits** $ | Super-annuation $ | Retirement benefits $ | Long service leave $ | Options $ | Total $ |
| *Non-executive directors* | | | | | | | | |
| Alan Anderson | 37,500 | - | - | - | - | - | - | 37,500 |
| Graham Mitchell | 30,023 | - | - | 2,477 | - | - | - | 32,500 |
| **Sub-total non-executive directors** | 67,523 | - | - | 2,477 | - | - | - | 70,000 |
| *Executive director, CEO and Chairman* | | | | | | | | |
| David Burton | 352,821 | - | - | - | - | - | - | 352,821 |
| *Other key management personnel* | | | | | | | | |
| David Lawson * | 210,230 | - | - | 17,513 | - | 3,281 | - | 231,024 |
| Warwick Freeman * | 222,870 | - | - | 20,058 | - | 3,974 | - | 246,902 |
| Kerry Hubick | 166,514 | - | - | 14,986 | - | 2,956 | - | 184,456 |
| Andrew Kegele * | 149,135 | 46,021 | - | 16,034 | - | 2,250 | - | 213,440 |
| Claude Buckles | 193,739 | - | 5,576 | - | - | - | - | 199,315 |
| Christoph Witte* | 244,249 | - | - | 27,624 | - | - | - | 271,873 |
| Curtis Ponton* | 205,078 | 56,692 | 14,854 | - | - | - | - | 276,624 |
| Tom Lorick | 154,055 | - | 5,576 | - | - | - | - | 159,631 |
| **Total key management personnel compensation** | **1,966,214** | **102,713** | **26,006** | **98,692** | **-** | **12,461** | **-** | **2,206,086** |

* denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

** Non-monetary benefits were not disclosed in the remuneration report for the 2009 financial year.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed Remuneration | | At risk – STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| | 2010% | 2009% | 2010% | 2009% | 2010% | 2009% |
| Directors of Compumedics Limited | | | | | | |
| David Burton | 100 | 100 | - | - | - | - |
| Dr. Graham Mitchell | 100 | 100 | - | - | - | - |
| Alan Anderson | 100 | 100 | - | - | - | - |
| Other key management personnel of Compumedics Limited | | | | | | |
| David Lawson | 100 | 100 | - | - | - | - |
| Warwick Freeman | 100 | 100 | - | - | - | - |
| Kerry Hubicik | 100 | 100 | - | - | - | - |
| Andrew Kegele | 81 | 71 | 19 | 29 | - | - |
| Other key management personnel of the Group | | | | | | |
| Christoph Witte | 100 | 100 | - | - | - | - |
| Curtis Ponton | 100 | 78 | - | 22 | - | - |

## C Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

**C Service agreements (continued)**

Remuneration and other terms of employment for the Chief Financial Officer and the other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including health insurance, car allowances and tax advisory services, and participation remuneration are set out below.

All contracts with executives may be terminated early by either party, subject to termination payments as detailed below.

*David Burton, Chief Executive Officer/Chairman*

- Fee for services provided, for the year ended 30 June 2010 of AUD352,821, to be reviewed annually by the remuneration committee. David Burton is also entitled to participate in the Medical Innovation Long Term. Performance Plan as approved at last year's Annual General Meeting.
- Performance bonus: no performance bonus was paid during the financial year. (2009: Nil).
- Review of last salary -1 July 2007
- David Burton does not have a formal service agreement.

*David Lawson, Chief Financial Officer/Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2010 of AUD 220,399, to be reviewed annually by the remuneration committee.
- Performance bonus: no performance bonus was paid during the financial year. (2009: NIL)
- Review of last salary -1 July 2009
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

*Warwick Freeman, Chief Technology Officer*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2010 of AUD242,852, to be reviewed annually by the remuneration committee
- Review of last salary -1 January 2008
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

*Kerry Hubick, Legal Counsel and Patent Attorney*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2010 of AUD180,821, to be reviewed annually by the remuneration committee.
- Review of last salary -1 July 2009
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

*Andrew Kegele, Director Australia and New Zealand*

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2010 of AUD162,131, to be reviewed annually by the remuneration committee.
- Performance bonus – AUD41,902 was paid as a performance bonus on achievement of specific sales goals during the financial year. (2009:AUD46,021)
- Review of last salary -1 July 2007
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

## C Service agreements (continued)

*Jeff Kuznia, Vice President Sales & Marketing Compumedics USA*
- Base salary inclusive of US benefits for the year ended 30 June 2010 of USD174,427, to be reviewed annually by the CEO.
- Performance bonus – no performance bonus was paid during the financial year.
- Review of last salary – April 2010
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

*Christoph Witte, Managing Director, DWL*
- Base salary inclusive of superannuation, for the year ended 30 June 2010 of EUR154,223, to be reviewed annually by the remuneration committee.
- Car Allowance of EUR8,183
- Performance bonus – no performance bonus was paid during the financial year. (2009: EUR15,600)
- Review of last salary -1 January 2009
- Christoph Witte's service agreement commenced 1 September 2004 with a 2 year fixed notice period from 1 September 2005, after which the notice period reduces proportionately to six months at 1 September 2007.

*Curtis Ponton, Vice President, Chief Scientist Neuroscan*
- Base salary inclusive of US benefits for the year ended 30 June 2010 of USD170,041, to be reviewed annually by the CEO.
- Performance bonus – USD6,750, was paid as a performance bonus on achievement of specific sales goals during the financial year. (2009:46,000)
- Review of last salary -1 July 2010
- The service agreement takes the form of an actual agreement which incorporates Compumedics conditions of employment, and other conditions and is for 3 years.
- Payment of a termination benefit on early termination of the agreement by the company, other than for gross misconduct, equal to base salary for 6 months.

## D Share-based compensation

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan. Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests is exercisable on the following basis:

(i) 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant
(ii) 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant
(iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date of the grant en exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

The Company did not have any share based payments in the full year ended 30 June 2010.
Unissued ordinary shares in Compumedics Limited under option at the date of this report held by directors are Nil.

## E Additional information

For each cash bonus and grant of options included in the tables on pages 8 and 9, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below.

| Name | Cash bonus Paid % | Cash bonus Forfeited % |
|---|---|---|
| Andrew Kegele | **-** | - |
| Curtis Ponton | **100** | - |

### Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in note 24 to the financial statements.

### Shares under option

There were no unissued ordinary shares of Compumedics Limited under option at the date of this report. No options expired during the financial year ended 30 June 2010 (2009: 50,000)

There were no new options issued during the year.

### Insurance of officers

During the financial year, Compumedics Limited paid premiums of $27,023 to insure the Directors and Secretary of the Company and its Australian-based controlled entities, and the Executives and other senior managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### 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 with leave of the Court under section 237 of the *Corporations Act 2001.*

## E Additional information (continued)

### Non-audit services

The group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

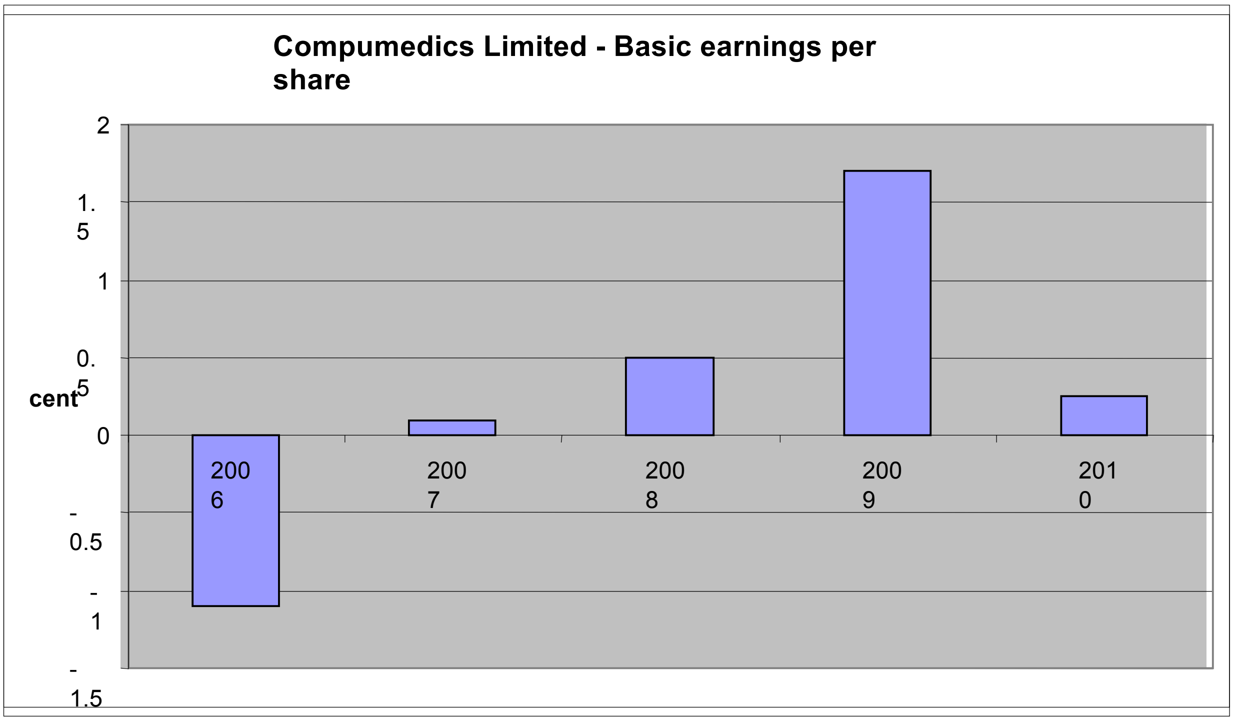
| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$** | **$** |
| **Non-audit services** | | |
| *Taxation services* | | |
| Related practices of Ernst & Young Australian firm | | |
| Tax compliance services | 22,000 | 22,000 |
| **Total remuneration for taxation services** | **22,000** | **22,000** |

**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 15.

**Rounding of amounts**
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

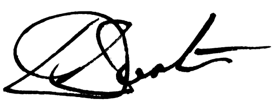
**Auditor**
Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001.*
This report is made in accordance with a resolution of directors.

***Group performance***




The Directors are pleased to report the continued turn-around in the Groups performance over the last five years, as reflected in the above earnings per share data, despite difficult external markets, particularly in the USA, post the global financial crisis in the financial year ended 30 June 2010.

The above results reflect an on-going stability in the company's financial performance albeit impacted in the current year by continuing soft market conditions in the company's key US market compounded by a high Australian dollar to the US dollar. Both these factors also impacted on revenues, reputed for the period.



Director

Melbourne
30 September 2010

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au



## Auditor's Independence Declaration to the Directors of Compumedics Limited

In relation to our audit of the financial report of Compumedics Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

June Wilson
Partner
30 September 2010

# Corporate Governance Statement

Compumedics Limited (the company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

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

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

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

**The board of directors**

The Board operates in accordance with the broad principles of the Board charter. The charter details the Board's composition and responsibilities.

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

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

***Board members***
Details of the members of the Board, their experience, expertise, qualifications, term of office are set out in the directors' report under the heading "Information on directors". There are two non-executive directors, one of

whom is deemed independent under the principles set out below, and one executive director at the date of signing the director's report.

The board seeks to ensure that:

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

***Directors' independence***

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

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

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

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

At the date of this report Dr. Graham Mitchell, a director of the company, is considered independent according to the governance provisions laid down by the Australian Stock Exchange.

***Term of office***

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, subject to the following limitations:

- no non-executive director may serve more than four terms (twelve years), and
- on attaining the age of 70 years a director will retire, by agreement, at the next AGM and will not seek re election.

***Chairman and Chief Executive Officer (CEO)***

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives.

At this point in time these roles are carried out by the same individual, Mr. David Burton. Mr. Burton is also founder and the majority shareholder of Compumedics.

***Commitment***

The Board held 11 Board meetings.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending board and committee meetings and associated activities.

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed on page 4.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the board. No appointments of this nature were accepted during the year ended 30 June 2010.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

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

***Conflict of interests***
Entities connected with Mr Alan Anderson had business dealings with the consolidated entity during the year, as described in note 24 to the financial statements. In accordance with the board charter, the directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the Group pertaining to those dealings.

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

***Performance assessment***
The Chairman, with the participation of the Board members, undertakes a semi-annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The last assessment was undertaken during September 2004.

***Corporate reporting***
The CEO and CFO have made the following certifications to the Board:
- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

***Board committees***
The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration and audit committees. The audit committee is comprised entirely of non-executive directors whilst the remuneration committee includes the CEO. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee is developing its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees currently being developed.

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

**Remuneration committee**

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

A Anderson (Chairman)
G Mitchell
and the following executive director:
D Burton.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 4.

The remuneration committee operates in accordance with its draft charter. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

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

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report" and note 24 to the financial statements.

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

**Audit committee**

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

A Anderson (Chairman appointed 1 January 2007)
and the following executive director: D Burton

Details of the director's qualifications and attendance at audit committee meetings are set out in the directors' report on pages 3-4.

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

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

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

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management, the internal and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews the processes the CEO and CFO have in place to support their certifications to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the board.

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

**External auditors**

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Ernst & Young were appointed as the external auditors at the annual general meeting in November 2008.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 25 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

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

**Risk assessment and management**

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

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

Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

**Code of Conduct**

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

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

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

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

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company's trading policy to report these through the Chief Financial Officer or the Chief Executive Officer.
The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

### Continuous disclosure and shareholder communication

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

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

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

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

# Financial Statements – 30 June 2010

This financial report covers consolidated financial statements for the consolidated entity consisting of Compumedics Limited and its subsidiaries. The financial report is presented in the Australian currency and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Compumedics Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Compumedics Limited
30-40 Flockhart Street
Abbotsford VIC 3067
Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 2 - 3 in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2010. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our investors on our website: www.compumedics.com.

# Statement of Comprehensive Income

**For the year ended 30 June 2010**

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods | 5 | 32,361 | 38,370 |
| Other revenue | 5 | 4 | 2 |
| | | **32,365** | **38,372** |
| **Other income** | 6 | 246 | 600 |
| **Expenses** | | | |
| Cost of sales | | (13,274) | (16,996) |
| Administration | | (5,465) | (4,072) |
| Sales and Marketing | | (8,010) | (9,753) |
| Research and Development | 7 | (4,876) | (4,864) |
| Finance costs | 7 | (572) | (560) |
| **Profit before income tax** | | **414** | **2,727** |
| Income tax (expense)/ benefit | 8 | - | - |
| **Net profit** | | **414** | **2,727** |
| **Other comprehensive income:** | | | |
| Foreign currency translation | | 19 | (10) |
| Other comprehensive income for the year, net of tax | | 19 | (10) |
| Total comprehensive income for the year | | **433** | **2,717** |
| **Profit/(loss) is attributable to:** | | | |
| Equity holders of Compumedics Limited | | **419** | **2,727** |
| **Total comprehensive income for the year is attributable to:** | | | |
| Equity holders of Compumedics Limited | | **433** | **2,717** |
| | | **Cents** | **Cents** |
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 34 | 0.26 | 1.7 |
| Diluted earnings per share | 34 | 0.26 | 1.7 |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

# Statement of Financial Position

**As at 30 June 2010**

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 1,836 | 2,607 |
| Trade and other receivables | 10 | 9,708 | 10,623 |
| Inventories | 11 | 4,982 | 3,798 |
| Total current assets | | **16,526** | **17,028** |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 920 | 871 |
| Intangible assets | 13 | 4,177 | 3,559 |
| Deferred tax assets | 8 | 188 | - |
| Total non-current assets | | **5,285** | **4,430** |
| **Total assets** | | **21,811** | **21,458** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 4,514 | 4,347 |
| Borrowings | 15 | 1,064 | 2,484 |
| Provisions | 16 | 1,843 | 1,938 |
| Income tax payable | 8 | 188 | - |
| Deferred revenue | 17 | 957 | 1,023 |
| Total current liabilities | | **8,566** | **9,792** |
| **Non-current liabilities** | | | |
| Borrowings | 18 | 882 | 17 |
| Provisions | 19 | 34 | 25 |
| Deferred revenue | 20 | 133 | 145 |
| Total non-current liabilities | | **1,049** | **187** |
| **Total liabilities** | | **9,615** | **9,979** |
| **Net assets** | | **12,196** | **11,479** |
| **EQUITY** | | | |
| Contributed equity | 21 | 31,019 | 31,007 |
| Reserves | 22(a) | (739) | (1,216) |
| Accumulated losses | 22(b) | (18,084) | (18,312) |
| **Total equity** | | **12,196** | **11,479** |

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

# Statement of Changes in Equity

**For the year ended 30 June 2010**

| CONSOLIDATED | Notes | Attributable to members of Compumedics Limited: Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | | 30,752 | (1,206) | (21,039) | 8,507 |
| Profit for the year | | - | - | 2,727 | 2,727 |
| Other comprehensive income | | - | (10) | - | (10) |
| **Total comprehensive income for the year** | | | **(10)** | **2,727** | **2,717** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Shares issued | 21(c) | 255 | - | - | 255 |
| **At 30 June 2009** | | **31,007** | **(1,216)** | **(18,312)** | **11,479** |
| **At 1 July 2009** | | 31,007 | (1,216) | (18,312) | 11,479 |
| Profit for the year | | - | - | 414 | 414 |
| Other comprehensive income | | - | 19 | - | 19 |
| **Total comprehensive income for the year** | | - | **19** | **414** | **433** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Shares issued | 21(c) | 284 | - | - | 284 |
| Value of conversion rights RCNs | 21(b) | (272) | - | 272 | - |
| Shares issued in lieu of interest payable on RCNs | 22(c) | - | 458 | (458) | - |
| **At 30 June 2010** | | **31,019** | **(739)** | **(18,084)** | **12,196** |

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

# Statement of Cash Flows

**For the year ended 30 June 2010**

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | 34,099 | 41,066 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (33,362) | (36,540) |
| | | 737 | 4,526 |
| Interest and other costs of finance paid | | (533) | (560) |
| Interest received | | 4 | 2 |
| Receipts from other income | | 246 | 600 |
| **Net cash inflow from operating activities** | 33 | **454** | **4,568** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (455) | (525) |
| Purchase of intangible assets | | (808) | (1,532) |
| **Net cash (outflow) from investing activities** | | **(1,263)** | **(2,057)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 1,939 | 396 |
| Repayment of borrowings | | (2,239) | (639) |
| Proceed from issue of shares | | - | 255 |
| **Net cash inflow (outflow) from financing activities** | | **(300)** | **12** |
| **Net increase (decrease) in cash and cash equivalents** | | (1,109) | 2,523 |
| Cash and cash equivalents at the beginning of the financial year | | 2,607 | 90 |
| Effects of exchange rate changes on cash and cash equivalents | | (217) | (6) |
| **Cash and cash equivalents at end of year** | 9 | **1,281** | **2,607** |

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements

**For the year ended 30 June 2010**

## 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for the consolidated entity consisting of Compumedics Limited and its subsidiaries. Compumedics Limited is the ultimate patent.

### (a) Basis of preparation

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

***Compliance with IFRS***
The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards board.

***Historical cost convention***
These financial statements have been prepared under the historical cost convention.

***Critical accounting estimates***
The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### (b) Principles of consolidation

*(i) Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("company") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

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

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

**1. Summary of significant accounting policies (continued)**

**(c) Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision maker being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

**(d) Foreign currency translation**

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

*(ii) Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

*(iii) Group companies*
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to foreign currency translation reserve. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in profit or loss, as part of the gain or loss on sale where applicable.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

**1. Summary of significant accounting policies (continued)**

**(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.
The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.
Revenue is recognised for the major business activities as follows:

*(i) Sale of goods*
This is typically for the sale of diagnostic systems, including hardware and software.
Revenue is recognised on the sale of goods when ownership of the asset sold has been transferred so that risks and reward have passed to the buyer.

*(ii) Services*
This is typically for technical support contracts post the sale and installation of the diagnostic systems.
Revenue is recognised on the sale of services on a straight line basis over the life of the contract for which the Group has an obligation to perform services pursuant to the contract.

**(f) Income tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.
Compumedics Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

**(g) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 1. Summary of significant accounting policies (continued)

#### (h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### (i) Cash and cash equivalents

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

#### (j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement no more than 30 days from shipment of goods. Typically these activities occur within 90 - 150 days of the shipment of goods.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within 'other expenses'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

#### (k) Inventories

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

**1. Summary of significant accounting policies (continued)**

**(l) Investments and other financial assets**

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

**(m) Fair value estimation**

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

**(n) Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The expected useful lives for all categories of property, plant and equipment are between 2 and 6 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

**(o) Intangible assets**

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 1. Summary of significant accounting policies (continued)

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which is 5 to 8 years.

**(p) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(q) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(r) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Borrowing costs include:

- Interest on bank overdrafts and short-term and long-term borrowings,
- Finance lease charges,
- Interest payable on the RCN's issued, and
- Bank charges on borrowing facilities.

**(s) Provisions**

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

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

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

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 1. Summary of significant accounting policies (continued)

### (t) Employee benefits

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

*(ii) Long service leave*
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Share-based payments*
Share-based compensation benefits are provided to employees via the Compumedics Employee Option Plan. Information relating to these schemes is set out in note 28.

The fair value of options granted under the Compumedics Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

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

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 1. Summary of significant accounting policies (continued)

**(u) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(v) Dividends**

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

**(w) Earnings per share**

*(i) Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**(x) Goods and Services Tax (GST)**

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

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

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

**(y) Rounding of amounts**

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

**1. Summary of significant accounting policies (continued)**

**(z) New accounting standards and interpretations**

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2009.

- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations effective 1 January 2009
- AASB 7 Financial Instruments : Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2009) effective 1 January 2009
- AASB 123 Borrowing Costs (revised 2007) effective 1 January 2009
- AASB 2008-1 Amendments to Australian Accounting Standard – Share based Payment : Vesting Conditions and Cancellations [AASB 2] effective 1 January 2009
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate effective 1 January 2009
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 January 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

*AASB 8 and AASB 2007-3 Operating Segments and consequential amendments to other Australian Accounting Standards*
The Company has adopted the new standard AASB 8 replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.
AASB 8 is a disclosure standard and as such this interpretation, as expected, has had no impact on the amounts included in the Company's financial statements. However, amendments have had an impact on the Company's segment disclosures.

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and therefore have not been adopted by the Company for the annual reporting period ended 30 June 2010.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 1. Summary of significant accounting policies (continued)

| Reference | Title | Summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|---|---|---|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project<br>[AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. | 1 January 2010 | Minimal | 1 July 2010 |
| AASB 9 | Financial Instruments | AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).<br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. | 1 January 2013 | Minimal | 1 July 2013 |
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] | The revised Standard introduces a number of changes to the accounting for financial assets. | 1 January 2013 | Minimal | 1 July 2013 |
| AASB 124 (Revised) | Related Party Disclosures (December 2009) | The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. | 1 January 2011 | Minimal | 1 July 2011 |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

| Reference | Title | Summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|---|---|---|---|---|---|
| AASB 2009-12 | Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] | This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. | 1 January 2011 | Minimal | 1 July 2011 |
| AASB 1053 | Application of Tiers of Australian Accounting Standards | This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements. | 1 July 2013 | No impact | 1 July 2013 |
| AASB 2010-2 | Amendments to Australian Accounting Standards arising from reduced disclosure requirements | This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements. | 1 July 2013 | No impact | 1 July 2013 |
| AASB 2010-4 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] | Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.<br>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.<br>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. | 1 January 2011 | Minimal | 1 July 2011 |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance and financial position of the Group.

Risk management is carried out by the senior managers of the Group.

### (a) Market risk

*(i) Foreign currency risk*

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk primarily arising from currency exposures to the US dollar and the Euro.

The Group does not generally use derivative financial instruments.

The Group's and parent entity's exposure to foreign currency risk at the reporting date was as follows:

| | **30 June 2010** | | **30 June 2009** | |
|---|---|---|---|---|
| | **USD $'000** | **Euro $'000** | **USD $'000** | **Euro $'000** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 859 | 270 | 972 | 267 |
| Trade receivables | 2,022 | 1,241 | 2,416 | 1,556 |
| **Financial liabilities** | | | | |
| Bank Loans | - | - | (45) | (47) |
| Trade payables | (1,180) | (511) | (1,168) | (432) |
| **Net exposure** | **1,701** | **1,000** | **2,175** | **1,344** |

*Sensitivity analysis*

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by one cent against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have been $0.1m higher/$0.1m lower (2009: $0.1m higher/$0.1m lower), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by one cent against the EURO with all other variables held constant, the Group's post-tax profit for the year would not have been materially effected (2009: no material impact), as a result of foreign exchange gains/losses on translation of EURO dollar denominated financial instruments as detailed in the above table. The Group and parent entity's exposure to other foreign exchange movements is not material.

The parent entity has a current inter company account receivable with the US business, part of which is considered a quasi investment in the US legal entity and part of which is considered a current trade receivable that can be collected upon. Any exchange gain or loss resulting from the translation into Australian Dollars of the quasi investment component of the inter company account is taken to a foreign currency translation reserve. Any exchange gain or loss resulting from the translation of the component of the inter company receivable that is considered to be trading in nature, is taken to profit or loss. Therefore a 1 cent rise or fall in the USD/AUD exchange rate on the trading component of the year end balance at 30 June 2010 would have a profit after tax impact of $0.1 m for the year ended 30 June 2010.

The parent entity likewise carries part of its inter company account with the German business as an investment and part as a receivable. The foreign exchange impact is negligible on this account.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 2. Financial risk management (continued)

*(ii) Interest rate risk*
As at the reporting date, the Group had the following variable rate borrowings outstanding:

| | 30 June 2010 | | 30 June2009 | |
|---|---|---|---|---|
| | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| **Consolidated** | | | | |
| Cash and cash equivalents | 0.92% | 1,836 | 0.5% | 2,607 |
| Bank overdrafts and bank loans | 9.48% | 2,047 | 6.9% | 2,239 |

*Sensitivity analysis*
The Groups sensitivity to interest rate movements is dependent on the underlying profitability of the Group. If the Group delivers profits at the level achieved in the year ended 30 June 2010 then based on 30 June 2010 year end borrowing of $1.9m a plus or minus 2% movement in interest rates (+/- $38,000) would cause a material change in underlying profitability of the Group. However if underlying annual earnings were $1m then, assuming borrowings remain at $1.9m, interest rate movements of +/- 4% (+/- $76,000) would be necessary to cause a material impact on the financial performance of the Group.

**(b) Credit risk**

The Group currently sells goods and services primarily to four major geographic regions being:
- Australia and New Zealand (A & NZ)
- United States of America (USA)
- Europe, the Middle East and Africa (EMEA)
- Asia

The sale of goods and services into Australia and New Zealand, the USA and Germany are made directly to the end user customer.

The sale of goods and services to Europe, the Middle East, Africa and Asia are typically made via distributors based in specific countries in Europe (excluding Germany) the Middle East, Africa and Asia. The goods are then onsold by the distributor to the end user customer in the specific country in Europe, the Middle East, Africa and Asia.

The collectability of receivables within agreed terms is typically better where the goods and services are sold to a direct customer rather than to a distributor.

The following tables identify accounts receivable at 30 June 2010 and 30 June 2009 identified by debt owed into major region and currency:

| Region | Current $'000 | 30 Days $'000 | 60 Days $'000 | 90+ Days $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Parent entity (AUD) | 2,312 | 44 | 11 | 205 | 2,572 |
| Parent entity (USD) | 1,865 | 17 | 23 | 512 | 2,417 |
| Parent entity (EURO) | 168 | 10 | - | 221 | 399 |
| Parent entity (GBP) | - | - | - | - | - |
| US subsidiary (USD) | 1,990 | 172 | 48 | 339 | 2,549 |
| German subsidiary (EURO) | 1,757 | (112) | 14 | 413 | 2,072 |
| | **8,092** | **131** | **96** | **1,690** | **10,009** |
| Provision | - | - | - | (1,041) | (1,041) |
| **2009** | | | | | |
| Parent entity (AUD) | 1,846 | 132 | 100 | 59 | 2,137 |
| Parent entity (USD) | 1,820 | 136 | 94 | 1,352 | 3,402 |
| Parent entity (EURO) | 64 | 7 | - | 105 | 176 |
| Parent entity (GBP) | - | - | - | 2 | 2 |
| US subsidiary (USD) | 1,996 | 591 | 171 | 320 | 3,078 |
| German subsidiary (EURO) | 1,952 | 179 | 253 | 544 | 2,928 |
| | **7,678** | **1,045** | **618** | **2,382** | **11,723** |
| Provision | (65) | (0) | (2) | (1,375) | (1,442) |

## 2. Financial risk management (continued)

The table highlights that:

- The collection of cash from the sale of goods and services to direct end user customers as identified by USA (USD) and Parent entity (AUD) accounts receivable usually occurs at or not long after agreed payment terms. Debtors in the 90 day column are 13.3% and 7.9% of the total debtors owing in the respective territories.
- The collection of cash from the sale of goods and services to distributors in Europe, the Middle East, Africa and Asia as represented by Parent entity (USD) accounts receivable usually occur well after agreed payment terms. Debtors in the 90 day column are approximately 26% of the total debtors outstanding.
- The collection of cash from the sale of goods and services in the DWL business, which is primarily via distributors into Europe and Asia typically occurs at or not long after agreed payment terms. Debtors in the 90 day column for DWL represent only 20% of all debtors owed to this business.

Whilst the length of time taken to collect cash owed to the Group can affect the cash resources of the Group the incidence of write off of accounts receivable for the Group is low, compared to the impairment of accounts receivable taken as a charge to profit or loss in any given period.

The Group's bad debt write off for accounts receivable for the year ended 30 June 2010 was $0.068m (2009: 0.058m), where as the impairment adjustment taken to the Statement of Comprehensive Income was a write back for the year ended 30 June 2010 of $(0.356m) (2009: charge to profit or loss of $0.6m).

As at 30 June 2010 the Group's debtor days were 109 days (2009:104 days), where debtors days is the average length of time taken for a sale to be paid from the date it is shipped and invoiced.

If the Group's debtor days increased or reduced by 10 days from current levels, all other variables remaining constant, the approximate impact on the Group's operating cash flows would be an improvement/deterioration for the year ended 30 June 2010 of $0.887m (30 June 2009: $1.0m).

Information on the Group's maximum exposure to credit risk and financial assets that are either past due or impaired can be found at Note 10.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 2. Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed available credit lines.

The Group does not have a specific policy as to the ratio of long term to short term debt and has instead focused on minimising total Group debt.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis across its worldwide business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

The Group had available bank facilities totalling $3.73m at 30 June 2010, of which $1.93m had been utilised. Details of the Group's financing arrangements can be found at Note 15.

| Consolidated | 6 months $000 | 6-12 months $000 | 1-5 years $000 | > 5 years $000 | Total $000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2009** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash and cash equivalents | 2,607 | - | - | - | 2,607 |
| Trade and other receivables | 10,623 | - | - | - | 10,623 |
| | **13,230** | **-** | **-** | **-** | **13,230** |
| **Financial Liabilities** | | | | | |
| Trade and other payables | 4,347 | - | - | - | 4,347 |
| Interest bearing loans and borrowings | 2,484 | 17 | - | - | 2,501 |
| | **6,831** | **17** | **-** | **-** | **6,848** |
| **Net inflow/(outflow)** | **6,399** | **(17)** | **-** | **-** | **6,382** |
| **Year ended 30 June 2010** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash and cash equivalents | 1,836 | - | - | - | 1,836 |
| Trade and other receivables | 9,708 | - | - | - | 9,708 |
| | **11,544** | **-** | **-** | **-** | **11,544** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 4,514 | | | | 4,514 |
| Interest bearing loans and borrowings | 900 | 290 | 943 | - | 2133 |
| | **5,414** | **290** | **943** | **-** | **6,647** |
| **Net inflow / (outflow)** | **6,130** | **(290)** | **(943)** | **-** | **4,897** |

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Deferred revenues*
In calculating the Group's deferred revenues at any point in time the Group makes a judgement regarding the typical costs the Group will incur in future periods for sales of goods that it has booked as revenue in the current and past periods.

The Group reviews its current cost for installation and training as a percentage of current revenues in determining an appropriate future cost for installation and training obligations that are still to be performed. Based on current installation and training costs as an estimate for future installation and training costs, 12% (deferral rate) of the total dollar value of all current sales where a future installation and training obligation exists, is deferred until such time as the future installation and training obligations have been extinguished.
Should the future costs of installation and training rise rapidly this could give rise to an increase in the percentage rate used to defer revenue. For example, in the past, a deferral rate of 20% has existed, whereby all current revenues with a future installation and training obligation had 20% of the total dollar value of the sale deferred. Had this deferral rate been used for calculating the deferred revenue for the year ended 30 June 2010 the impact would have been to reduce revenues by $0.2m and reduce the profit by $0.2m.

*(ii) Inventory*
At any given point the Group has an obligation to carry its inventory at the lower of cost and net realisable value. In determining the Group's compliance with this requirement the Group reviews its slow moving inventory at December 31 and June 30 each year. As a consequence of this review the financial provision for slow moving inventory is adjusted with a resulting profit or loss impact.

In determining the appropriateness of the slow moving inventory provision the Group makes estimates about its future use of certain product lines and also the ultimate recoverability and usefulness of the inventory on hand.

Given the leading edge technology nature of the Group's activities, this may mean that inventory that was previously considered usable and therefore of value may quickly become redundant, obsolete or simply no longer usable.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 3. Critical accounting estimates and judgements (continued)

*(iii) Trade receivables*
Similarly for trade receivables the Group must make an estimate at any given point in time as to the recoverability of the receivables it has on its ledger and a provision for impairment is created based on this estimate.

The estimate is based on many factors including:

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

Using this information the Group makes an assessment of the recoverability of its trade receivables.

*(iv) Recoverability of capitalised development costs*

The Group has capitalised $0.8m (2009: $1.5m) of costs related to the development of the SPAP product this financial year. The recoverability of these costs is dependant on the commercial success of the product, so that it will generate future economic benefits in excess of the costs capitalised. The group commenced amortisation of these costs in the current financial year with a $0.2m charge to profit or loss.

### 4. Operating Segments

**(a) Accounting policies and inter-segment transactions.**

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior periods except as detailed below:

*Inter-entity sales*

Inter-entity sales are recognised based on an internally set transfer price. The price is set annually and aims to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

*Corporate charges*

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each operating segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

It is the Group's policy that if term of revenue and expenses are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

**(b) Description of segments**

**Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the geographical location in which products are sold and services provided, either directly to end-user customers or via distributors. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

**4. Operating Segments (continued)**

**Geographic locations**

*America's*

The Group's America's based business includes, the United States, Canada and Latin America. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra sonic blood-flow systems, supplies and technical service and support. The US business also includes that sleep diagnostic services business. Sales in the America's are predominantly direct sales to end-user customers. The US office is based in Charlotte, North Carolina.

*Australia and Asia Pacific*

The Group's head office is based in Melbourne, Australia and the Australia and Asia Pacific territory includes all countries in the Asia Pacific region with major countries for the territory including Japan and China. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra sonic blood-flow systems, supplies and technical service and support. The group sells directly to end-user customers in Australia and via a network of distributors into the Asian region.

*Europe and the Middle East*

The Group's Europe-based business has its principle office in Singen, Germany with a second office in Hamburg Germany. The Europe based territory includes all countries in the European region, plus all Middle Eastern countries. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultra sonic blood-flow systems, supplies and technical service and support. The Group sells its ultra-sonic blood-flow systems directly in Germany and all other products are sold via a network of distributors across the territory.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 4. Operating Segments (continued)

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

| 2010 | USA $'000 | Australia and Asia Pacific $'000 | Europe $'000 | Other $'000 | Group $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales to external customers | 11,212 | 11,428 | 9,725 | - | 32,365 |
| Intersegment sales | 876 | 2,915 | 425 | - | 4,216 |
| Other intersegment revenue | - | 97 | 927 | - | 1,024 |
| **Total segment revenue** | **12,088** | **14,440** | **11,077** | - | **37,605** |
| Intersegment elimination | (876) | (3,012) | (1,352) | - | (5,240) |
| **Total revenue** | **11,212** | **11,428** | **9,725** | - | **32,365** |
| **Segment Result** | **(1,713)** | **2,526** | **472** | - | **1,285** |
| Other income | - | - | - | 246 | 246 |
| Depreciation and amortisation | (147) | (311) | (87) | - | (545) |
| Net Interest (expense) / income | (37) | (440) | (95) | - | (572) |
| **Net Profit before income tax per the Statement of Comprehensive Income** | **(1,897)** | **1,775** | **290** | **246** | **414** |
| **Segment Assets** | **3,673** | **29,678** | **3,662** | - | **37,013** |
| Intersegment elimination | (68) | (15,231) | (91) | - | (15,390) |
| Deferred tax assets | - | - | - | 188 | 188 |
| **Total assets per the Statement of Financial Position** | **3,605** | **14,447** | **3,571** | **188** | **21,811** |
| **Acquisition of property plant & equipment and intangible** | **32** | **855** | **375** | - | **1,262** |

Sales within Australia for 2010 were $5.2m

| Products and services | 2010 $'000 |
|---|---|
| Sleep monitoring | 11,861 |
| Brain Monitoring | 8,411 |
| Ultrasonic blood flow monitoring | 6,557 |
| Supplies & Service | 5,532 |
| Unallocated | 4 |
| **Total products and services** | 32,365 |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 4. Operating Segments (continued)

| 2009 | USA $'000 | Australia and Asia Pacific $'000 | Europe $'000 | Other $'000 | Group $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales to external customers | 15,123 | 13,164 | 10,085 | - | 38,372 |
| Intersegment sales | 1,234 | 2,636 | 841 | - | 4,711 |
| Other intersegment revenue | - | 117 | 798 | - | 915 |
| **Total segment revenue** | **16,357** | **15,917** | **11,724** | **-** | **43,998** |
| Intersegment elimination | (1,234) | (2,753) | (1,639) | - | (5,626) |
| **Total revenue** | **15,123** | **13,164** | **10,085** | **-** | **38,372** |
| **Segment Result** | **(2,312)** | **5,036** | **400** | **-** | **3,124** |
| Other income | - | - | - | 600 | 600 |
| Depreciation and amortisation | (152) | (132) | (153) | - | (437) |
| Net Interest (expense) / income | (61) | (382) | (117) | - | (560) |
| **Net Profit before income tax per the Statement of Comprehensive Income** | **(2,525)** | **4,522** | **130** | **600** | **2,727** |
| **Segment Assets** | **4,387** | **27,157** | **4,379** | **-** | **35,922** |
| Intersegment elimination | (148) | (14,292) | (24) | - | (14,464) |
| **Total assets per the Statement of Financial Position** | **4,239** | **12,865** | **4,355** | **-** | **21,458** |
| **Acquisition of property plant & equipment and intangible** | **68** | **1,767** | **222** | **-** | **2,057** |

Sales within Australia for 2009 were $6.2m

| Products and services | 2009 $'000 |
|---|---|
| Sleep monitoring | 14,257 |
| Brain Monitoring | 10,249 |
| Ultrasonic blood flow monitoring | 8,244 |
| Supplies & Service | 5,620 |
| Unallocated | 2 |
| **Total products and services** | 38,372 |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 5. Revenue

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| *Sales revenue* | | |
| Sale of goods | 30,114 | 35,981 |
| Services | 2,247 | 2,389 |
| | **32,361** | **38,370** |
| *Other revenue* | | |
| Interest | 4 | 2 |
| | **32,365** | **38,372** |

### 6. Other income

| | 2010 | 2009 |
|---|---|---|
| Other income | **246** | **600** |

The majority of this income relates to sub-lease rental income

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 7. Expenses

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Profit before income tax includes the following specific expenses:** | | |
| *Depreciation* | | |
| Plant and equipment | 345 | 385 |
| Plant and equipment under finance leases | 7 | 18 |
| Total depreciation | **352** | **403** |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 572 | 560 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 864 | 857 |
| *Foreign exchange gains and losses* | | |
| Net foreign exchange losses | (1,211) | 706 |
| *Employee benefits* | | |
| Payroll expense including leave payments | 14,798 | 13,258 |
| Superannuation entitlements | 625 | 643 |
| | **15,423** | **13,901** |
| Research and development expenditure | 4,876 | 4,864 |
| Current receivables - impairment | (401) | (551) |
| Inventory – write down / (Recovery) | (1,088) | 898 |

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 8. Income tax expense

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **(a) Income tax expense** | | |
| Current income tax charge | 188 | - |
| Deferred income tax | (188) | - |
| Income tax reported in the statement of comprehensive income | - | - |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax expense as reported in the statement of comprehensive income | 414 | 2,727 |
| Add back losses incurred by foreign operations* | 2,627 | 3,874 |
| Profit before income tax subject to Australian income tax | 3,041 | 6,601 |
| Tax at the Australian tax rate of 30% (2009 - 30%) | 912 | 1,980 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Impairment of intercompany receivables and investments | | |
| Non deductible expenses | 2 | 3 |
| Research and development | (242) | (362) |
| Timing differences previously not booked | (378) | - |
| Tax losses utilised | (294) | (1,621) |
| Income tax reported in the statement of comprehensive income | - | - |
| **(c) Deferred tax assets and liabilities relate to the following:** | | |
| **Deferred tax assets** | | |
| Employee benefits | 391 | 351 |
| Borrowing costs | 25 | 28 |
| Provisions and accruals | 985 | 1,243 |
| Unrealised FX loss | 41 | 52 |
| Gross deferred tax assets | **1,442** | **1,674** |
| Deferred tax liabilities | | |
| Intangible asset | (1,254) | - |
| Gross deferred tax liabilities | **(1,254)** | **-** |
| Net deferred tax assets | **188** | **1,674** |
| Unused tax losses for which no deferred tax asset has been recognised* | 2,081 | 3,048 |
| Potential tax benefit @ 30% | 620 | 914 |

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 8. Income tax expense (continued)

* Unused tax losses for the 2009 financial year have been revised as a revised estimate has been made of the tax losses which relate to prior years.

The benefit associated with tax losses will be recognized if:

(i) the Group 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 Group continues to comply with the conditions for deductibility imposed by tax legislation, and
(iii) no change in tax legislation adversely affects the Group in realising the benefit from the deductions for the loss.

### (c) Tax consolidation legislation

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

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 9. Current assets – Cash and cash equivalents

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Cash at bank and in hand | 1,836 | 2,607 |

**Reconciliation to Statement of Cash Flows**
For the purposes of the statement of cash flow, cash and cash equivalents comprise the following at 30 June

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Cash at bank and in hand | 1,836 | 2,607 |
| Bank overdrafts (note 15) | (555) | - |
| Balances per Statement of Cash Flows | **1,281** | **2,607** |

### 10. Current assets – Trade and other receivables

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Trade receivables | 10,009 | 11,723 |
| Allowance for impairment loss | (1,041) | (1,442) |
| | **8,968** | **10,281** |
| Other receivables/prepayments | 726 | 342 |
| Related party receivables: | | |
| Loans to key management personnel | 14 | - |
| | **9,708** | **10,623** |

Movements in the provision for impairment loss were as follows:

| | 2010 | 2009 |
|---|---|---|
| At 1 July | 1,442 | 1,993 |
| Provision for impairment recognised during the year | (411) | (609) |
| Receivables written off during the year as uncollectible | 10 | 58 |
| | **1,041** | **1,442** |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 10. Current assets – Trade and other receivables (continued)

The creation and release of the provision for impaired receivables has been included in 'administration' expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

**Past due but not impaired**

As of 30 June 2010, trade receivables of $2,081,931 (2009 - $3,834,710) were past due but not impaired. These relate to a number of independent customers and distributors for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| Up to 3 months | 1,404 | 2,791 |
| 3 to 6 months | 516 | 904 |
| Over 6 months | 162 | 140 |
| | **2,082** | **3,835** |

**Fair value and credit risk**

Due to the short-term nature of these non-interest bearing receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

Due to the industry in which the Group operates, the Group trades with a number of Australian and overseas distributors who are notoriously slow payers. The ageing profile of trade receivables is closely monitored and significantly aged balances and doubtful accounts are provided against.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 11. Current assets - Inventories

The provision for stock obsolescence was reduced during the year ended 30 June 2010 by $1,088m as a result of the Groups continued focus on utilising slow moving inventory in current production and also selling the inventory as part of special promotions and packages. These activities have lead the Group to adjust the provision for stock obsolescence to reflect the recoverable value of the inventory on hand at 30 June 2010.

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| Raw materials and stores (at cost) | 5,679 | 5,921 |
| Work in progress (at cost) | 325 | 239 |
| Finished goods (at cost) | 2,634 | 2,382 |
| Provision for obsolescence | (3,656) | (4,744) |
| **Inventories at net realisable value** | **4,982** | **3,798** |

#### (a) Inventory expense

Inventories recognised as an expense during the year ended 30 June 2010 amounted to $13,273,648 (2009: $16,996,338).

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 12. Non-current assets - Property, plant and equipment

| Consolidated | Plant and Equipment At Cost $'000 | Office Equipment At Cost $'000 | Motor Vehicle $'000 | Leasehold Improvements $'000 | Plant and Equipment Leased $'000 | Office Equipment Leased $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2009** | | | | | | | |
| At 1 July 2008 | 161 | 427 | 23 | 71 | 6 | 5 | 693 |
| Additions | 231 | 288 | - | 6 | - | - | 525 |
| Exchange differences | 4 | 60 | - | - | - | - | 64 |
| Disposals | (1) | (7) | - | - | - | - | (8) |
| Depreciation/amortisation expense | (71) | (279) | (7) | (35) | (6) | (5) | (403) |
| At 30 June 2009 | 324 | 489 | 16 | 42 | - | - | 871 |
| **At 30 June 2009** | | | | | | | |
| Cost or fair value | 978 | 3,172 | 192 | 585 | 430 | 571 | 5,928 |
| Accumulated depreciation | (654) | (2,683) | (176) | (543) | (430) | (571) | (5,057) |
| **Net carrying amount** | **324** | **489** | **16** | **42** | **-** | **-** | **871** |
| **Year ended 30 June 2010** | | | | | | | |
| Opening net book amount | 324 | 489 | 16 | 42 | - | - | 871 |
| Additions | 45 | 410 | - | - | - | - | 455 |
| Exchange differences | (8) | (44) | - | (2) | - | - | (54) |
| Disposals | - | - | - | - | - | - | - |
| Depreciation/amortisation expense | (71) | (242) | (7) | (32) | - | - | (352) |
| At 30 June 2010 | 290 | 613 | 9 | 8 | - | - | 920 |
| **At 30 June 2010** | | | | | | | |
| Cost or fair value | 1,023 | 3,582 | 192 | 585 | 430 | 571 | 6,383 |
| Accumulated depreciation | (733) | (2,969) | (183) | (577) | (430) | (571) | (5,463) |
| **Net carrying amount** | **290** | **613** | **9** | **8** | **-** | **-** | **920** |

### (a) Property, plant and equipment pledged as security for liabilities

Refer to note 15 for information on non-current assets pledged as security.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 13. Non-current assets - Intangible assets

| Consolidated | Development costs $'000 | Total $'000 |
|---|---|---|
| **Year ended 30 June 2009** | | |
| At 1 July 2008 | 2,028 | 2,028 |
| Additions | 1,531 | 1,531 |
| Impairment charge | - | - |
| Amortisation charge | - | - |
| **At 30 June 2009** | **3,559** | **3,559** |
| | | |
| **At 30 June 2009** | | |
| Cost* | 3,559 | 3,559 |
| Accumulated amortisation** and impairment | - | - |
| **Net carrying amount** | **3,559** | **3,559** |
| | | |
| **Year ended 30 June 2010** | | |
| At 1 July 2009 | 3,559 | 3,559 |
| Additions | 807 | 807 |
| Impairment charge | - | - |
| Amortisation charge | (189) | (189) |
| **At 30 June 2010** | **4,177** | **4,177** |
| | | |
| **At 30 June 2010** | | |
| Cost | 4,366 | 4,366 |
| Accumulated amortisation** and impairment | (189) | (189) |
| **Net carrying amount** | **4,177** | **4,177** |

* Relates to capitalised development costs being an internally generated intangible asset
** Amortisation of $189,328 (2009 - $Nil) is included in depreciation and amortisation expense in profit or loss.

### 14. Current liabilities - Trade and other payables

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Trade payables | 3,465 | 3,144 |
| Other payables | 1,049 | 1,203 |
| | **4,514** | **4,347** |

#### (a) Foreign currency risk

For an analysis of the sensitivity of trade and other payables to foreign currency risk refer to note 2.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 15. Current Liabilities - Borrowings

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Secured** | | |
| Bank overdrafts | 555 | - |
| Bank loans | 500 | 2,233 |
| Lease liabilities (note 27) | 9 | 6 |
| | 1,064 | 2,239 |
| **Unsecured** | | |
| Redeemable Convertible Notes(note 15(g)) | - | 245 |
| **Total current borrowings** | **1,064** | **2,484** |

### (a) Risk exposures

Details of the Group's exposure to fair value interest rate risk arising from current borrowings is set out in note 2.

### (b) Fair value disclosures

No borrowings are readily traded on organised markets.

The carrying amounts of all borrowings are not materially different to their fair values at reporting date.

### (c) Assets pledged as security

The total secured liabilities are as follows:

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Bank overdrafts and bank loans | 1,055 | 2,233 |
| Lease liabilities | 16 | 23 |
| Total secured liabilities | **1,071** | **2,256** |

The bank loans and overdraft are secured by a Corporate Guarantee and Indemnity unlimited as to amount and a Mortgage Debenture over all the assets and undertaking of the Company and subsidiaries: Compumedics Telemed Pty Ltd, Compumedics Cardiology Pty Ltd, Compumedics Medical Innovation Pty Ltd, Compumedics USA Inc, Compumedics Germany GmbH and Compumedics Singapore Pte Ltd.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 15. Current Liabilities – Borrowings (continued)

The carrying amounts of assets pledged as security for current borrowings are:

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Current** | | | |
| *Floating* charge | | | |
| Cash and cash equivalents | 9 | 1,836 | 2,607 |
| Receivables | 10 | 9,708 | 10,623 |
| Inventories | 11 | 4,982 | 3,798 |
| Total current assets pledged as security | | **16,526** | **17,028** |
| **Non-current** | | | |
| *Floating charge* | | | |
| Property, plant and equipment | 12 | 920 | 871 |
| Intangible assets | 13 | 4,177 | 3,559 |
| Total non-current assets pledged as security | | **5,097** | **4,430** |
| Total assets pledged as security | | **21,623** | **21,458** |

### (d) Forward exchange contracts

As at 30 June 2010 and 30 June 2009 there were no outstanding forward exchange contracts.

### (e) Financing arrangements

Access was available at reporting date to the following lines of credit:

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Credit standby arrangements** | | |
| Total facility | | |
| Bank overdrafts | 2,350 | - |
| Commercial debtors | - | 2,200 |
| Fixed term borrowings | 1,375 | - |
| | **3,725** | **2,200** |
| Used at reporting date | | |
| Bank overdrafts | 555 | - |
| Commercial debtors | - | 872 |
| Fixed term borrowings | 1,375 | - |
| | **1,930** | **872** |
| Unused at reporting date | | |
| Bank overdrafts | 1,795 | - |
| Commercial debtors | - | 1,328 |
| Fixed term borrowings | - | - |
| | **1,795** | **1,328** |
| Bank loan facilities | | |
| Total facilities | 3,725 | 2,200 |
| Used at reporting date | 1,930 | 872 |
| Unused at reporting date | **1,795** | **1,328** |

### 15. Current Liabilities – Borrowings (continued)

The Group had bank facilities totalling $3.725 million (including a fully drawn advance of $1.375 m) at 30 June 2010.

#### (f) Derivative instruments

Compumedics Limited and certain of its controlled entities may be party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. At reporting date there were no outstanding derivative financial instruments in place.

#### (g) Redeemable Convertible Notes (RCNs)

On 2 February 2009 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of $0.1 million and to other investors to the value of $0.145 million. All RCNs have been converted to ordinary shares in Compumedics Limited as at 30 June 2010.

Coupon interest on the RCNs could only be paid as equity. The interest was converted into equity on maturity.

The conversion factor used to turn the RCNs into ordinary equity of the Company was the average share price for 5 days immediately prior to the issue of the RCNs. The average share price calculated on this basis was 13.5 cents per share.

### 16. Current liabilities - Provisions

| | Consolidated | |
|---|---|---|
| | **2010** **$'000** | **2009** **$'000** |
| Employee benefits | 1,602 | 1,538 |
| Service warranties (note 16(a)) | 241 | 400 |
| | **1,843** | **1,938** |

#### (a) Service warranties

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

Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 16. Current liabilities – Provisions (continued)

### (b) Movements in provisions

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

| | Service warranties $'000 |
|---|---|
| **Consolidated - 2010** | |
| **Current** | |
| Carrying amount at start of year | 400 |
| Charged/(credited) to profit or loss | |
| - additional provisions recognised | - |
| - unused amounts reversed | (159) |
| **Carrying amount at end of year** | **241** |

### 17. Current liabilities - Deferred income

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Deferred income | 957 | 1,023 |

Deferred income relates to service contracts yet to be performed and post sale installation and training obligations yet to be completed pursuant to the Group's accounting policies as detailed in Note 1 Summary of significant accounting policies, (e) Revenue recognition.

### 18. Non-current liabilities - Borrowings

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Secured** | | |
| Lease liabilities (note 27) | 7 | 17 |
| Bank Loans | 875 | - |
| | **882** | **17** |

### (a) Foreign currency and interest rate risk

Information about the Group's exposure to interest rate and foreign currency risk is provided in note 2 and note 15.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 19. Non-current liabilities – Provisions

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Employee benefits | 34 | 25 |

### 20. Non-current liabilities - Deferred income

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Deferred income | 133 | 145 |

Deferred income relates to service contracts yet to be performed and post sale installation and training obligations yet to be completed pursuant to the Company's accounting policies as detailed in Note 1 Summary of significant accounting policies, (e) Revenue recognition.

### 21. Contributed equity

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | 2010 Shares | 2009 Shares | 2010 $'000 | 2009 $'000 |
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | 161,983,209 | 159,875,821 | 31,019 | 30,735 |
| **(b) Other equity securities** | | | | |
| Value of conversion rights RCNs | | | 345 | 345 |
| Deferred tax liability component | | | (73) | (73) |
| Transferred within equity | | | (272) | - |
| **Total contributed equity - consolidated** | | | **31,019** | **31,007** |

**(c) Movements in ordinary share capital:**

| Date | Details | Number of shares | Issue price | $'000 |
|---|---|---|---|---|
| 1 July 2008 | Opening balance | 158,074,134 | | 30,480 |
| | New shares issued | 1,801,687 | $0.142 | 255 |
| 30 June 2009 | Balance | 159,875,821 | | 30,735 |
| 1 July 2009 | Shares issued in lieu of interest payable on RCNs | 292,573 | $0.135 | 39 |
| | Shares issued on conversion of RCNs | 1,814,815 | $0.135 | 245 |
| 30 June 2010 | Balance | 161,983,209 | | 31,019 |

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 21. Contributed equity (continued)

#### (d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The ordinary shares have no par value.

#### (e) Other equity securities

The amount shown for other equity securities is the value of the conversion rights relating to the RCN, details of which are shown in note 15.

#### (f) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.
Management will periodically adjust the capital structure of the Group to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management pay a dividend to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management currently has no plans to pay a dividend and has not done so in the prior year. This policy will be reviewed at least annually against known and anticipated operational outcomes.

Management has no current plans to issue further shares on the market.

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| **Total borrowings** | **2,047** | **2,239** |
| Less cash and cash equivalents | 1,836 | 2,607 |
| Net debt / (cash) | 211 | (368) |
| **Total equity** | **12,196** | **11,479** |
| **Total capital** | **12,407** | **11,111** |
| **Gearing ratio** | **1.7%** | **N/A** |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 22. Reserves and accumulated losses

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **(a) Reserves** | | |
| Foreign currency translation reserve | (739) | (758) |
| Shares issued in lieu of interest payable on RCNs | - | (458) |
| | **(739)** | **(1,216)** |

**(b) Accumulated losses**

Movements in accumulated losses were as follows:

| | 2010 | 2009 |
|---|---|---|
| Balance 1 July | (18,312) | (21,039) |
| Net profit/(loss) for the year | 414 | 2,727 |
| Transferred within equity | (186) | - |
| Balance 30 June | **(18,084)** | **(18,312)** |

**(c) Other Reserves**

| Consolidated | Foreign currency translations $'000 | Capital raising reserve $'000 |
|---|---|---|
| Balances as at 1 July 2008 | (748) | (458) |
| Exchange difference on translation of foreign operation | (10) | - |
| At 30 June 2009 | **(758)** | **(458)** |
| Exchange difference on translation of foreign operation | 19 | - |
| Transferred within equity | - | 458 |
| **At 30 June 2010** | **(739)** | **-** |

**(d) Nature and purpose of reserves**

**Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit or loss when the net investment is disposed of.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 23. Dividends

#### (a) Ordinary shares

The directors have not declared a dividend in the current financial year (2009: Nil).

### 24. Key management personnel disclosures

#### (a) Directors

The following persons were directors of Compumedics Limited during the financial year:

*(i) Chairman and Executive director*
Mr. David Burton, Chief Executive Officer

*(ii) Non-executive directors*
Mr. Alan Anderson
Dr. Graham Mitchell

#### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| ***Name*** | ***Position*** | ***Employer*** |
|---|---|---|
| David Lawson^ | Chief Financial Officer and Company Secretary | Compumedics Limited |
| Warwick Freeman^ | Chief Technology Officer | Compumedics Limited |
| Kerry Hubick^ | Legal Counsel & Patent Attorney | Compumedics Limited |
| Andrew Kegele^ | Business Director, Australia and New Zealand | Compumedics Limited |
| Claude Buckles^ * | Vice President, Sleep Sales, USA | Compumedics USA Limited |
| Christoph Witte^ | Managing Director, DWL | Compumedics Germany GmbH |
| Curtis Ponton^ | Vice President, Chief Scientist, Neuroscan | Compumedics USA Limited |
| Tom Lorick^ ** | Vice President, Marketing America | Compumedics USA Limited |

^ The above persons were also key management persons during the year ended 30 June 2009
* Left the Group December 2009
** Left the Group April 2010

#### (c) Key management personnel compensation

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$** | **$** |
| Short-term employee benefits | 1,812,681 | 2,068,927 |
| Post-employment benefits | 95,156 | 98,692 |
| Long-term benefits | 20,902 | 12,461 |
| Non-monetary benefits | 32,842 | 26,006 |
| Share-based payments | - | - |
| | **1,961,581** | **2,206,086** |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 24. Key management personnel disclosures (continued)

#### (d) Equity instrument disclosures relating to key management personnel

*(i) Option holdings*
There were no options provided as remuneration during the current or prior year.
No options over ordinary shares were held by KMP's at 30 June 2010 and 30 June 2009.

*(ii) Share holdings*
The numbers of shares in the company held during the financial year by each director of Compumedics Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year* | Balance at the end of the year |
|---|---|---|---|---|
| **2010** | | | | |
| ***Directors of Compumedics Limited*** | | | | |
| **Ordinary shares** | | | | |
| David Burton | 100,007,302 | - | 814,795 | 100,822,097 |
| Dr. Graham Mitchell | - | - | - | - |
| Alan Anderson | 89,655 | - | - | 89,655 |
| ***Other key management personnel of the Group*** | | | | |
| **Ordinary shares** | | | | |
| David Lawson | 3,458,704 | - | 945,946 | 4,404,650 |
| Warwick Freeman | 82,000 | - | - | 82,000 |
| Kerry Hubick | 1,044,529 | - | 81,512 | 1,126,041 |
| Andrew Kegele | 66,483 | - | - | 66,483 |
| Christoph Witte | - | - | - | - |
| Curtis Ponton | - | - | - | - |

* The shares were purchased on market and off-market at market rates and do not form part of remuneration.

| Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year* | Balance at the end of the year |
|---|---|---|---|---|
| **2009** | | | | |
| ***Directors of Compumedics Limited*** | | | | |
| **Ordinary shares** | | | | |
| David Burton | 107,536,745 | - | (7,529,443) | 100,007,302 |
| Dr. Graham Mitchell | - | - | - | - |
| Alan Anderson | 89,655 | - | - | 89,655 |
| ***Other key management personnel of the Group*** | | | | |
| **Ordinary shares** | | | | |
| David Lawson | 1,125,371 | - | 2,333,333 | 3,458,704 |
| Warwick Freeman | 82,000 | - | - | 82,000 |
| Kerry Hubick | 1,044,529 | - | - | 1,044,529 |
| Andrew Kegele | 66,483 | - | - | 66,483 |
| Claude Buckles | - | - | - | - |
| Christoph Witte | - | - | - | - |
| Curtis Ponton | - | - | - | - |
| Tom Lorick | - | - | - | - |

* The shares were purchased on market and off-market at market rates and do not form part of remuneration.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 24. Key management personnel disclosures (continued)

### (e) Other transactions with key management personnel

David Burton is a Director and shareholder of Intellirad Solutions Pty Ltd. Expenses have been paid by Compumedics on behalf of Intellirad Solutions Pty Ltd. These have been reimbursed in full.

David Burton is a director of D & DJ Burton Holding Pty Ltd.

On 2 February 2009 the Company issued Redeemable Convertible Notes (RCNs) to D&DJ Burton Holdings Pty Ltd to the value of $0.1 million. The RCNs were convertible, at the option of the holder, into ordinary issued equity of the Company on maturity and had a 6 month life upon maturity, the holder elected to convert the RCNs.

The RCNs carried a coupon rate of interest of 20% p.a.

Coupon interest on the RCNs could only be paid as equity. The interest was converted into equity after the year ended 30 June 2009.

The conversion factor to be used if the holder elects to turn the RCNs into ordinary equity of the Company is the average share price for 5 days immediately prior to the issue of the RCN. The average share price calculated on this basis is 13.5 cents per share.

A Director, Alan Anderson, was a partner in the American legal firm of Briggs & Morgan, prior to this financial year he was a partner of Fulbright & Jaworski LLP. 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.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Amounts recognised as expense** | | |
| Legal fees | 52,529 | 70,122 |

Aggregate amounts payable to key management personnel of the Group at reporting date relating to the above types of other transactions:

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$** | **$** |
| **(a) Audit services** | | |
| Ernst & Young Australian firm | | |
| Audit and review of financial reports under the Corporations Act 2001 | 150,000 | 150,000 |
| Total remuneration for audit services | **150,000** | **150,000** |
| **(b) Non-audit services** | | |
| *Taxation services* | | |
| Tax compliance services | 22,000 | 22,000 |
| Total remuneration for taxation services | **22,000** | **22,000** |
| | **172,000** | **172,000** |

### 26. Contingencies

#### (a) Contingent liabilities

Consolidated entity had no contingent liabilities at 30 June 2010.

#### (b) Contingent assets

Consolidated entity had no contingent assets at 30 June 2010.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 27. Commitments

*(i) Operating leases*

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

| | Consolidated | |
|---|---|---|
| | 2010<br>$ | 2009<br>$ |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 661 | 965 |
| Later than one year but not later than five years | 655 | 447 |
| Commitments not recognised in the financial statements | **1,316** | **1,412** |
| *Other leases* | | |
| Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of rental properties | - | 208 |

The Group has hire purchase contracts for motor vehicles with a carrying amount of Nil (2009 $11K). These hire purchase contracts expire within one to four years.

| | | |
|---|---|---|
| *(ii) Hire purchase commitments* | | |
| Within one year | 9 | 6 |
| After one year but not more than five years | 7 | 17 |
| Total minimum lease payments | **16** | **23** |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 28. Share-based payments

#### (a) Employee Option Plan

The establishment of the Compumedics Limited Employee Option Plan was approved by shareholders immediately prior to the listing of the Company in December 2000. All staff are eligible to participate in the plan.

Options are typically granted under the plan for no consideration except when options are issued in lieu of a cash bonus as noted below. Options are granted for a five year period and each new tranche vests and is exercisable on the following basis:

(i) 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant

(ii) 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant

(iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date of the grant

When exercisable each option is convertible into one ordinary share of the Company.

The exercise price of the options is based on the closing price at which the Company's shares are traded on the Australian Stock Exchange on the day prior to the grant.

Where options have been taken in lieu of a cash bonus the vesting period does not apply and the exercise price is 1 cent per share. The number of options issued is calculated by dividing the cash bonus available by the average share price for the 5 trading days prior to the granting of the options taken in lieu of the cash bonus.

The Group did not have any share based payments in the full year ended 30 June 2010.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 29. Related party transactions

#### (a) Parent entities

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

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 31.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

#### (d) Transactions with related parties

Transactions between Compumedics Limited and other entities in the wholly owned group during and as at the years ended 30 June 2010 and 2009 consisted of:

| | Consolidated | |
|---|---|---|
| | 2010<br>$ | 2009<br>$ |
| Purchase of legal services from Briggs & Morgan | 52,529 | 70,122 |
| Receipt of RCNs from D & DJ Burton Holdings Pty Ltd | - | 100,000 |
| Interest on RCNs | - | 8,106 |
| Receipt of RCNs from David Lawson | - | 135,000 |
| Interest on RCNs | - | 10,948 |

#### (e) Loans to/from related parties

| | Consolidated | |
|---|---|---|
| | 2010<br>$ | 2009<br>$ |
| *Loans to/from director (Convertible Note)* | | |
| Beginning of the year | 108,106 | - |
| Loans advanced | - | 100,000 |
| Interest charged | - | 8,106 |
| Amounts taken to equity | (108,106) | - |
| End of year | **-** | **108,106** |

#### (g) Guarantees

No guarantees have been given from related parties.

#### (h) Terms and conditions

All transactions between related parties were made on normal commercial terms and conditions and at market rates. The Company has agreed extended credit terms on this outstanding balance.

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

### 30. Parent Entity Information

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Information relating to Compumedics Limited: | | |
| Current assets | 10,039 | 9,012 |
| Total assets | 18,573 | 21,753 |
| Current liabilities | 5,434 | 6,376 |
| Total liabilities | 6,377 | 6,418 |
| | | |
| Contributed Equity | 31,019 | 31,007 |
| Reserves | - | (458) |
| Accumulated losses | (18,823) | (15,214) |
| Total shareholders equity | **12,196** | **15,335** |
| | | |
| Profit or loss of the parent entity | 3,041 | 6,601 |
| Total comprehensive income of the parent entity | 17,497 | 18,567 |

### 31. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| | Country of incorporation | Class of shares | Equity holding 2010 % | Equity holding 2009 % |
|---|---|---|---|---|
| Compumedics Telemed Pty Ltd. | Australia | Ordinary | 100 | 100 |
| Compumedics Medical Innovations Pty Ltd. | Australia | Ordinary | 100 | 100 |
| Compumedics Cardiology Pty Ltd. | Australia | Ordinary | 100 | 100 |
| Compumedics USA Inc. | USA | Ordinary | 100 | 100 |
| Compumedics Singapore Pte Ltd. | Singapore | Ordinary | 100 | 100 |
| Compumedics USA Ltd. (formerly Neuroscan Ltd.) | USA | Ordinary | 100 | 100 |
| Compumedics Germany GmbH. | Germany | Ordinary | 100 | 100 |
| Cardio Sleep Services Inc. | USA | Ordinary | 100 | 100 |

### 32. Events occurring after the reporting date

The Directors are not aware of any material matters or events occurring after the reporting date that would materially alter this report.

## Notes to the Financial Statements (continued)

**For the year ended 30 June 2010**

### 33. Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Profit/(loss) for the year | 414 | 2,727 |
| Depreciation and amortisation | 543 | 403 |
| Net exchange differences | (237) | 393 |
| Property lease benefit amortisation | - | - |
| Impairment of loans in subsidiaries | - | (8) |
| Change in deferred tax | - | - |
| RCN interest taken as expense | - | 19 |
| Change in operating assets and liabilities | | |
| Decrease (Increase) in receivables | 915 | 1,543 |
| Decrease (Increase) in inventories | (1,184) | 886 |
| (Decrease) increase in trade payables | 167 | (1,587) |
| Increase in deferred tax asset | (188) | |
| Increase in income tax payable | 188 | - |
| Increase (decrease) in deferred revenues | (78) | 5 |
| Increase in other provisions | (86) | 187 |
| Net cash inflow (outflow) from operating activities | **454** | **4,568** |

### 34. Earnings per share

| | Consolidated 2010 Cents | Consolidated 2009 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Profit attributable to the ordinary equity holders of the company | 0.26 | 1.7 |
| **(b) Diluted earnings per share** | | |
| Profit attributable to the ordinary equity holders of the company | 0.26 | 1.7 |

**(c) Reconciliations of earnings used in calculating earnings per share**

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| *Basic earnings per share* | | |
| Profit | 414 | 2,727 |
| *Diluted earnings per share* | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share | 414 | 2,727 |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | 414 | 2,727 |

## Notes to the Financial Statements (continued)

### For the year ended 30 June 2010

**(d) Weighted average number of shares used as the denominator**

| | Consolidated | |
|---|---|---|
| | **2010 Number** | **2009 Number** |
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | 161,983,209 | 159,875,821 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | - | 50,000 |
| *Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share* | 161,983,209 | 159,925,821 |

**(e) Information concerning the classification of securities**

*(i) Options*

Options that have been granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 28.

*(ii) Redeemable Convertible notes*

Redeemable Convertible notes issued during the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2009

# Directors' Declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 22 to 72 are in accordance with the Corporations Act 2001, including:

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

   (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and

   (iii) complying with the International Financial Reporting Standards as disclosed in note 1, and

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

(c) the audited remuneration disclosures set out on pages 5 to 11 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

David Burton
Director

Melbourne
30 September 2010

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# Independent auditor's report to the members of Compumedics Limited

## Report on the Financial Report

We have audited the accompanying financial report of Compumedics Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### *Auditor's Opinion*

In our opinion:

1. the financial report of Compumedics Limited is in accordance with the *Corporations Act 2001*, including:
   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 14 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Compumedics Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

June Wilson
Partner
Melbourne
30 September 2010

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 10 September 2010.

## A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | Class of equity security | | | | | |
|---|---|---|---|---|---|---|
| | Ordinary shares | Number held | Options | Number held | Redeemable Convertible notes | Number held |
| 1 - 1000 | 83 | 64,675 | - | - | - | - |
| 1,001 - 5,000 | 382 | 1,288,857 | - | - | - | - |
| 5,001 - 10,000 | 232 | 2,008,559 | - | - | - | - |
| 10,001 - 100,000 | 339 | 10,925,312 | - | - | - | - |
| 100,001 and over | 82 | 147,695,806 | - | - | - | - |
| | **1,118** | **161,983,209** | **-** | **-** | **-** | **-** |

There were 261 holders of less than a marketable parcel of ordinary shares and they hold 456,358 ordinary shares.

## B. Equity security holders

*Twenty largest quoted equity security holders*
The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares |
| D & DJ Burton Holdings Pty Ltd | 98,780,597 | 60.98 |
| Teijin Pharma Limited | 8,293,698 | 5.12 |
| Armco Barriers Pty Ltd | 6,230,000 | 3.85 |
| Medigas Italia S.R.L | 4,333,333 | 2.68 |
| Mr David Francis Lawson | 2,853,202 | 1.76 |
| Electro Molecular Pty Ltd | 2,041,500 | 1.26 |
| Bond Street Custodians Limited | 1,493,448 | 0.93 |
| Mr Bert Van Netten | 1,406,168 | 0.87 |
| John Tilton Pty Ltd | 1,272,409 | 0.79 |
| Dr Kerry Trent Hubick | 1,126,011 | 0.70 |
| Mr Mladen Marusic | 1,026,977 | 0.63 |
| Dr Russell Kay Hancock | 1,000,000 | 0.62 |
| Andama Holding Pty Ltd | 867,278 | 0.54 |
| Go Go Marketing Pty Ltd | 724,667 | 0.45 |
| EST Joan Elaine Steel | 630,000 | 0.39 |
| Southam Investments 2003 Pty Ltd | 552,000 | 0.34 |
| Mr Richard Keller | 500,000 | 0.31 |
| Mr Paul Henry Golding | 500,000 | 0.31 |
| Bain Nominees Pty Ltd | 433,000 | 0.27 |
| Mr Ken Whitton | 415,801 | 0.26 |
| | **134,480,089** | **83.06** |

*Unquoted equity securities*

| | Number on issue | Number of holders |
|---|---|---|
| Convertible redeemable notes | - | - |

## C. Substantial holders

Substantial holders in the company are set out below:

| | Number held | Percentage |
|---|---|---|
| Ordinary shares | | |
| D & DJ Burton Holdings Pty Ltd | 100,822,097 | 62.24 % |
| Teijin Pharma Limited | 8,293,698 | 5.12 % |

## D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Convertible redeemable notes
No voting rights.

(c) Options
No voting rights.

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