

‘Defining *life’s* signals’



> SLEEP DIAGNOSTICS > NEURO DIAGNOSTICS > NEUROSCAN > NEURO MEDICAL SUPPLIES

> ANNUAL REPORT 2004

During the last financial year the following key achievements of the business were delivered:

Achieved annual
global sales
(2003/04) of:

\$34M

#1 Leader in Asia Pacific sleep market and #3 and growing in the biggest sleep market, the USA.

Growth of
US revenues in
US dollars over
the prior year:

35%

Profits after
tax restored at
record levels:

\$2.4m

\$1.2B size of the industry of which we have less than 3% market share.

Constantly fine tuning our processes to improve efficiencies so that we are well positioned for profitable growth.

Achieving the

Business



A faint, light blue illustration of the Vitruvian Man is positioned on the left side of the page. The figure is shown in a dynamic pose, with arms and legs extended, inscribed within a circle and a square. The text 'right balance' is written in a cursive font above the figure's head.

right balance

Innovation

Compumedics remains committed to developing innovative products and technology for medical diagnostics:

The pre-eminent American Academy of Sleep is reviewing a possible change in the sleep scoring protocol. The majority of the committee members use Compumedics equipment.

R&D funding
over the past
5 years, of:

\$20M

1,500

over 1,500 universities, corporate laboratories and national research centres use our superior technology.

Revenue achieved
in 2004 from
SynAmps2:

\$8M

50

Over 50 countries worldwide have access to Compumedics technology.

As the company grows, research and development spending will level out at around 12% of revenues.

FINANCIAL SUMMARY

ALL FIGURES IN A\$M UNLESS OTHERWISE STATED

| | 2004 | 2003 | % CHANGE |
|--|------|--------|----------|
| Operating Revenue | 34.0 | 32.1 | 6 |
| Earnings before interest, income tax, depreciation and amortisation (EBITDA) | 2.9 | 1.9 | 55 |
| Earnings before interest and income tax (EBIT) | 2.4 | (18.8) | n/a |
| Operating profit after tax | 2.4 | (18.6) | n/a |
| Research and development costs as a percentage of operating revenue (%) | 19.1 | 21 | 10 |
| Total assets | 24.5 | 23.8 | 3 |
| Shareholders funds | 13.9 | 11.7 | 19 |
| Net tangible assets per share (cents) | 9.9 | 8.3 | 19 |
| Weighted average number of shares (million) | 140 | 140 | — |
| Earnings per share (basic) (cents) | 1.7 | (13.3) | n/a |
| Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents) | 2.1 | 1.4 | 50 |

UNDERSTANDING THE NUMBERS

Revenues: Revenues increased by 6% from \$32.1m to \$34.0m over the previous corresponding period. The US business in US dollars grew by 35% over the previous year to USD 12.8m.

EBITDA: EBITDA increased by 55% from \$1.9m to \$2.9m for the financial year ending 30 June 2004. This improvement reflects strong gains in the operational efficiency of the business during the year.

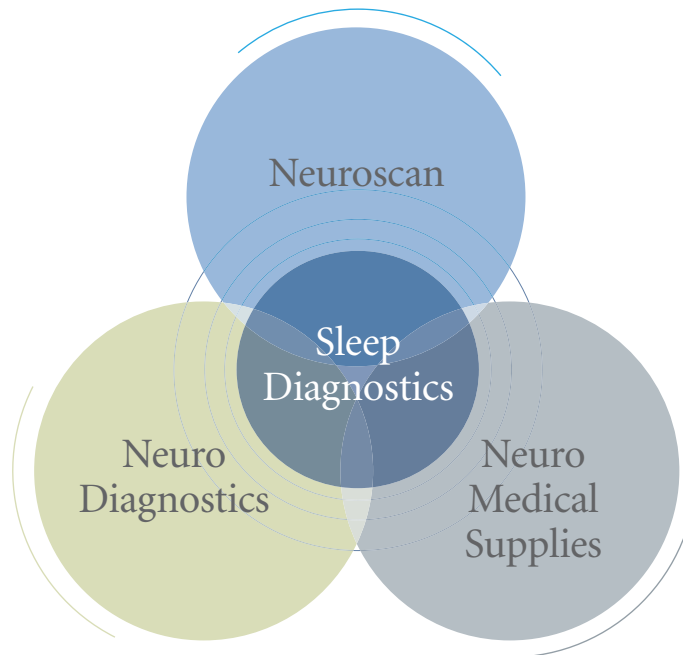
NPAT: The business returned to profits after tax for the year at a record \$2.4m compared to last year's result of a loss of \$18.6m. Last year's results were impacted by the decision to write off all intangible assets at that time.

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Compumedics Limited
ABN 95 006 854 894

Annual General Meeting
Thursday 21st October 2004 at 10.30am
To be held at: Compumedics Limited
30-40 Flockhart Street Abbotsford
Victoria 3067

‘Our *focused* strategy...



$\frac{2}{3}$

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. In recent years, Compumedics has leveraged its Sleep Diagnostics technology platform to develop new opportunities in the neurological research industry. Today, Compumedics' technologies and products are distributed to clients around the globe, helping millions of people who suffer from debilitating sleep and neurological healthcare problems. Compumedics' strategy is right, it's on track and is now delivering results.

... is *now* working.'

A focused stra

For 17 years, Compumedics' focus in Sleep and associated medical disorders has established a solid platform for growth.



Chairman,
CEO Message

Answering the important
questions.



Dear Compumedics' Investors and all Stakeholders,

In the **year ended** 30 June 2004, Compumedics mettle shone through. Your Company achieved a record net profit of \$2.4 million from turnover of \$34 million. Operating profit (earnings before interest, depreciation and tax) increased by 55% in 2004 from \$1.9 million to \$2.9 million. Sales growth included a 35% increase in US sales and a 20% increase in European sales, in local currency terms. Our cash position is positive and has strengthened with an increase in operating and net cash of AUD \$2.6 million and AUD \$1 million, respectively.

The **achievement** of record results by the company as it returned to profits and cash generation is a reflection of the hard work and the never ending resolve and focus for continued improvement by all the people at Compumedics. In particular, we pay tribute to the quality and support of our clients and patience of our shareholders. We thank our staff and loyal suppliers who continue to support our desire for continued quality and productivity gains.

The company's **strategy** remains firm: We are a leading global diagnostic equipment supplier; we will continue to maintain excellence within our core competency of sleep diagnostics and the associated fields of neuro diagnostics, brain research and cardiology. Combined, these markets have annual sales well in excess of AUD \$1.2 billion PA.

In the **year ahead** our Sleep products will see the ushering in of a new generation of wireless technology, presenting the right technology at the right time. Our development team have achieved extraordinary results with the highly successful release of the SynAmp2 and the accompanying high performance brain function analysis systems. Neuroscience is positioned with a series of exciting product releases, spearheading Compumedics' most significant foray into the highly lucrative clinical neurosciences market. Compumedics' consumable business and our focus on improved services will remain a priority as we reinforce these valuable annuity streams. Our operational structure will retain its focus and discipline, as we rapidly build sales on a stable cost base, and continue to achieve ever increasing efficiencies throughout the organisation.

In the **year ahead** we expect to gain a stronger direct foothold within Europe, on similar lines to our successful USA acquisition strategy.

In summary, we have restored strong profitability and positive cash, we have the strongest and finest product pipe-line of all time, our resolve and vigilance for continued improvement is stronger than ever, and we are now braced to deliver a strong growth outlook. Please join us as we look forward to a successful 2004/2005 year ahead.

Yours sincerely,

David Burton
Compumedics Ltd CEO, Chairman

How would you summarise the financial performance of the business in the last twelve months?

The result was a good step along the road to our ultimate goals for the company. The achievement of record results by the company as it returned to profits and cash generation is a reflection of the hard work by all the people at Compumedics over the last couple of years, and the support and patience of our shareholders.

Whilst the appreciation of the Australian dollar against the US dollar during the year somewhat dampened the result, we had anticipated this. The company must continue on its growth trajectory to increase the value of our company. Our technology and market development is on target and we expect strong revenue growth with profits and cash generation to continue.

Are you satisfied with the revenue growth of the business?

As a stepping stone towards elite performance, it is acceptable. Clearly the revenue result was below what we have historically achieved, even excluding the strong Australian dollar. Having said that, the US business in US dollars did achieve revenue growth of 35% over the previous year so the infrastructure put in place there is now bearing fruit. Our challenge is to achieve consistent growth across the group.

What impact did the Australian dollar's appreciation against the US dollar have on the business in the financial year?

Had the exchange rate stayed at similar levels for the 12 month period to June 30 2003, namely around 0.56¢, revenues would have been \$39.4m, or \$5.4m higher than reported and profits would have been \$3.5m or approximately \$1.1m higher.

The fact the business absorbed such a large external movement and still improved its financial performance demonstrates the focus within the business on operational efficiency and cost control. However, there is always room for significant improvement and this is the focus for 2005.

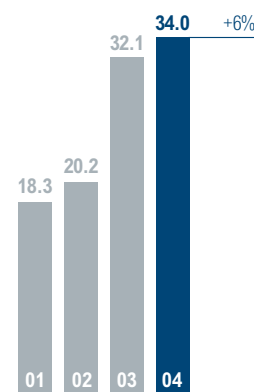
Is Compumedics hedging to reduce exchange rate uncertainty?

The Board of Directors reviews exchange rate exposures on a regular basis. At this point in time the company does not hedge its on-going business as there is a reasonable natural hedge on earnings with manufacturing in Melbourne and a growing US business focused on sales, marketing and distribution.

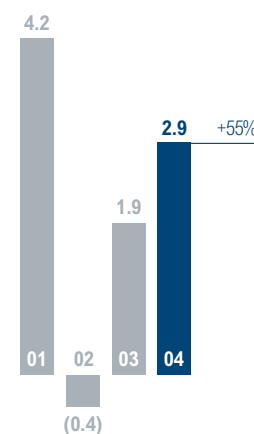
As for specific commitments we will hedge these as we think appropriate.

What is the strategy for Compumedics over the next few years?

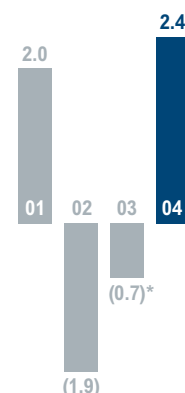
Compumedics' strategy remains as it has for the past 17 years, to continue to develop its core competency in sleep diagnostics so as to maintain its position as one of the leaders in this growing healthcare market. We will then continue to leverage this technology platform into new and growing opportunities such as brain research (Neuroscan), neurodiagnostics, neuro medical supplies and cardiology.



Revenue \$millions

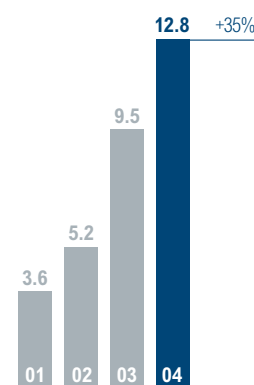


EBITDA \$millions



NPAT \$millions

*excluding write down of intangible assets



US business revenues
\$US millions

Revenue range expected
to be between:

\$38M – \$42M

R&D spending
as a percentage of
those revenues:

16% – 18%

Why do you believe the strategy is working?

I believe the strategy is working because the business is generating profits and cash and the business continues to grow. We are one of the leaders in sleep diagnostics and also brain function research tools, through the acquisition of Neuroscan two years ago.

Your costs have declined significantly in 03/04, will this cost-reduction trend continue?

Yes, but on the basis of waste elimination and productivity improvements. The cost base is now established for the business. We will selectively add to sales and marketing resources to ensure we achieve the growth objectives of the business. In addition as the business grows the factory will continue to be a source of efficiency and cost gains as more volume is moved through the facility.

The US business grew strongly during the year. Do you expect this level of growth to continue?

Two years ago we began the process of establishing a completely direct sell business following the termination of our distributor agreement. The work and focus that has gone into building the infrastructure in the US over that time is now achieving the outcomes we expected. We have continued to build our sales and marketing infrastructure in the US over the last year and on that basis we would expect growth in the US to continue at similar levels in the year ahead.

How is the European business going?

Whilst the European business grew 20% over the last year, the overall development of this business will take longer than anticipated. Our European business will continue to develop on a number of fronts: our relationship with Draeger continues to evolve; we are currently in the final stages of selecting a General Manager Sales and Marketing to be based in Europe and at the same time building independent distribution channels for brain research and neuro diagnostics. We are looking at both organic and acquisition based strategies for Europe.

It has been two years since you acquired Neuroscan. Do you believe this acquisition has worked?

The acquisition of Neuroscan was a fundamental stepping stone in the development of our US business. It is now generating profits and working. Also with the Neuroscan business came a range of technologies that are still in development and for which the commercial outcomes are still to be harvested.

The release of Synamp2 has been a major success for the company in 2004. What are the products for the future the business is working on?

Compumedics continues to build a strong pipeline of new products and technologies across their sleep diagnostics and neurodiagnostic and brain research (Neuroscan) markets.

During 2005 the following products will be released: COMPERIO DQ – Breakthrough EMG product for

US business growth in
2004/2005 at least:

30%

Achieve leadership position
in global sleep market:

#1

market entry strategy executed with patented IP NEMO – A completely new product for the Neuro diagnostic business. This 128 channel long term monitoring EEG device will add significantly to the Neuro diagnostic products offering and underpin the next level of growth for this business.

CURRY 5.0 – the first high end brain research software on the Windows platform to maintain Neuroscan's preeminent position in brain research.

NEXUS Scheduler – a new module taken to the next level for aggressive penetration of sleep and neurology markets.

Siesta II – incorporates new wireless protocols, for true Wifi in the sleep and EEG laboratory.

How are the projects handled by Medical Innovation progressing?

The company re-organised its management last year to allow a greater focus on the growth platforms and to keep the operational business focused on performance and profitability.

As a result a number of patents have been secured on sleep treatment technology during the course of the year.

In addition, clinical trials of the in-depth anesthesia technology progressed during the year.

What is the outlook for the 2005 financial year?

The focus will clearly be on profitable growth, to further capitalise on the larger and growing customer base of the company.

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

The company expects that revenues for the year ended June 30, 2005 will be between 38 million dollars and 42 million dollars and profits after tax will be between 3.0 million dollars and 4.0 million dollars.

What final comments do you have for the shareholders?

We have now restored profitability and cash generation and as a consequence, are more inclined to communicate ongoing expectations upon a firm foundation.



David Burton Executive Chairman and CEO

Profits after tax in
2004/2005 expected
to be between:

\$3M – \$4M

The Business of

Description of the market:

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

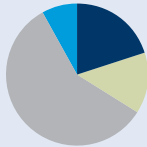
Current Market Share:

16%

In the next 12 months we expect to grow our share of the brain research market in Europe by 50%

Where we compete:

● Asia 20%
● Europe 14%
● USA 58%
● Australia/NZ 8%
(Total Sales)



Competitive Advantages:

- 1 Superior patented technology
- 2 Uncompromised system design
- 3 Highest industry quality standard

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 sales and support infrastructure to harness this expanding market opportunity.

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

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

Global Brain Research market A\$:

\$70M

Global Sleep Diagnostics market A\$:

\$250M

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.

Current Market Share:

7%

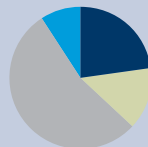
In the next 12 months we expect to grow our share of the sleep diagnostic market by 50%

Competitive Advantages:

- 1 Innovative strength
- 2 Active involvement in sleep science globally
- 3 Market placement and momentum

Where we compete:

● Asia 23%
● Europe 14%
● USA 54%
● Australia/NZ 9%
(Total Sales)



Key drivers:

Will be to logically continue to expand our US and European sales and support infrastructure and to evolve the business to provide complete sleep medical solutions.

Compumedics

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

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

Global Neuro
Diagnostics
market A\$:

\$890M

Global Neuro
Medical Supplies
market A\$:

\$260M

Description of the market:

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

Current Market Share:

less than 1%

In the next 12 months we expect to grow our share of the neuro diagnostic market by 100%

Where we compete:

● Asia 13%
● Europe 21%
● USA 20%
● Australia/NZ 46%
(Total Sales)



Competitive Advantages:

- 1 Complete range from clinical to research technologies
- 2 Uncompromised system design
- 3 Highest industry quality standard

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 we have being complemented by a completely new long-term monitoring device in 2005, this will be achieved. The Neuroscan technology sets the standard. 80% of the neurology research Institutes across the world use Neuroscan. Compumedics clinical products are now leveraging on this technological edge.

Description of the market:

The Neuro Medical Supplies market comprises sleep consumables, brain research consumables and neuro diagnostic 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.

Current Market Share:

1%

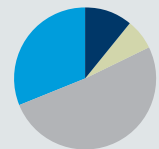
In the next 12 months we expect to grow our share of the neuro medical supplies market by 100%.

Competitive Advantages:

- 1 Existing installed base
- 2 Proprietary products
- 3 Growing distribution network

Where we compete:

● Asia 11%
● Europe 7%
● USA 51%
● Australia/NZ 31%



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.

Key Clients

- University of Melbourne (Aust)
- Flinders University (Aust)
- University of Queensland (Aust)
- University of Sydney (Aust)
- University of New Castle (Aust)
- Swinburne Centre for Applied Neuroscience (Aust)
- Starship Children's Hospital (New Zealand)
- University of California, Davis (USA)
- Pediatric Epilepsy Center (USA)
- Yale School of Medicine (USA)
- Kennedy Krieger (USA)
- National Institute on Alcohol Abuse & Alcoholism (USA)
- The Mayo Clinic (USA)
- Albert Einstein College of Medicine (USA)
- Harvard Medical School (USA)
- Harvard University (USA)
- Stanford University School of Medicine (USA)
- Oxford University (UK)
- Tokyo University (Japan)
- Kyoto University (Japan)
- Communications Research Laboratory (Japan)

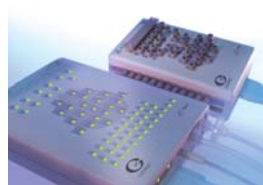
Products Provided:

- SynAmps2 – world's most powerful and advanced amplifier
- Scan data acquisition software
- Curry multi-modal neuroimaging software
- MagLink 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



Compumedics is ranked
3rd in the fastest growing
Sleep market, the US
– worth approx:

\$175M_{p.a.}



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)
- Royal Edinburgh Infirmary (UK)
- University of California in San Diego (US)
- Hennepin County Hospital (USA)
- University of Florida, Shands Hospital (USA)
- Redmond County Hospital (USA)
- NASA (USA)
- US National Institute of Health – Sleep Heart Health Study (USA)

Products provided

- Siesta PSG – the ultimate in wireless Sleep recording systems
- Somté – unique holter style cardio-respiratory system
- E-Series EEG/PSG – network ready laboratory and portable Sleep system
- Safiro PSG – ideal for ambulatory applications in sleep
- P-Series – portable sleep recorder used by NASA and Sleep Heart Health Study
- Series – the original sleep recording system

Clients of

Brain
Research

#1

GLOBAL MARKET
POSITION

Sleep
Diagnostics

#1

IN AUST

#3

IN USA

“I have used Neuroscan amplifiers and software for the past 10 years and currently use Neuroscan Synamp™, Nuamp™ and Synamp2™ amplifiers, Compumedics E-series™ hardware, Scan™, Stim™ and Profusion™ software packages and the Neuroscan Maglink™ system in several NIH funded sleep research projects. As a sleep researcher, I am excited about the future prospects of Compumedics

Compumedics

Neuro
Diagnostics
#1

AUSTRALIAN MARKET
POSITION

Neuro
Medical
Supplies

GLOBAL MARKET
POSITION BEING BUILT

combining the talent and expertise of its
Neuroscan and Sleep divisions to produce what
will undoubtedly become the new gold standard
technology for sleep research.”

Dr. Ian Colrain established the Human Sleep Research Program at SRI
in Menlo Park, California in late 2001. Prior to this, Dr. Colrain was
the Clinical Senior Research Scientist at Stanford's Sleep Disorders
Clinic. Dr. Colrain is also Principal Fellow and Associate Professor in
the Department of Psychology at the University of Melbourne.

Exciting opportunities
exist in the massive Neuro
Diagnostics market worth:

\$890M_{p.a.}

Key Clients

- Flinders Medical Centre (Aust)
- Austin Repatriation & General Hospital (Aust)
- St. Vincent's Hospital (Aust)
- Royal Children's Hospital (Aust)
- Royal Brisbane Hospital (Aust)
- Royal Perth Hospital (Aust)
- Princess Margaret Hospital (Aust)
- Royal North Shore Hospital (Aust)

Products Provided

- 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



12
13



Key Clients

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

Products provided

Our comprehensive range of products
produced for this market are:

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

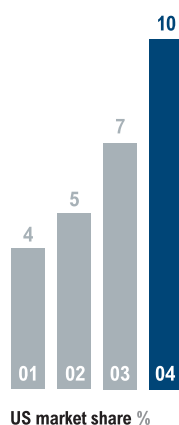
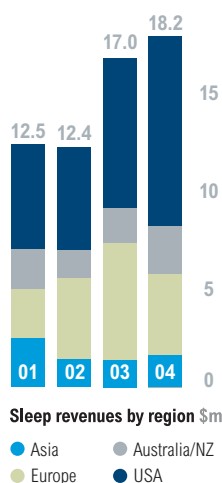
Clinical Sleep Diagnostics:

Discovering, developing, and delivering new technologies that are dramatically improving people's lives.

“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

The most compact wireless system incorporates true Wifi in the sleep and EEG laboratory



What is a Sleep Disorder?

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

How are Sleep Disorders Diagnosed?

General practitioners will refer patients who suffer from a combination of sleep-related symptoms (severe snoring, daytime tiredness, general fatigue and poor sleep patterns) to sleep physicians or respiratory physicians. At the specialist's recommendation, the patient may need to undertake a sleep study either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. (In home studies the patient is connected to a portable sleep diagnosis device prior to sleep.) For 8 to 10 hours, breathing patterns, leg movements, eye movements, patient position and



Number of
known
sleep disorders:

85

14
15

responses to light, sound and temperature are monitored using ECG, EEG, EMG, SaO₂, TcCO₂ 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.

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

Sleep disordered breathing is also more common in people with spinal cord injury

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

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

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

Clinical Neuro Diagnostics:

Continue to expand our neurological diagnostic business in the USA off the successful development of the business in Australia.

What is Clinical Neuro Diagnostics?

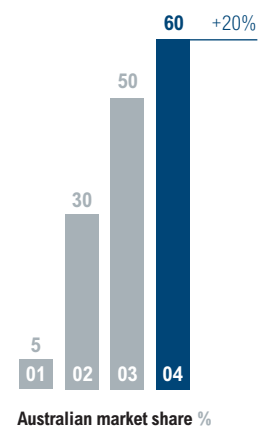
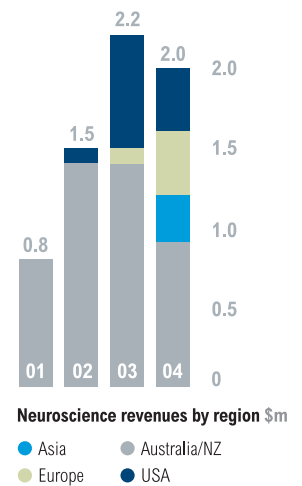
Clinical Neuro Diagnostics is the study of electrical activity in the brain, spinal cord, nerves and muscles for the diagnosis and monitoring of neurological based diseases. The methods used to study clinical neuro-physiology include Electroencephalography (EEG), Electromyography (EMG), and Evoked Potentials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

What is EEG used for?

EEG is used in the diagnosis, evaluation and/or management of the following diseases or brain-related issues:

- Epilepsy
- Structural Lesions
- Coma and brain death
- Metabolic disorders
- Infections
- Anaesthesia level and intra-operative monitoring
- Migraine
- Cerebrovascular Disorders
- Head injuries
- Alzheimers disease
- Cognitive function

Compumedics technologies provide better patient outcomes by enabling recording in a natural environment





Latest EMG systems
from Compumedics
Neuroscience

The ideal ambulatory
EEG System



Number of sites
installed in Australia
& NZ with Neuro:

140

“As compumedics users of some four years standing, we have been consistently impressed by the quality of the equipment, the level of support, and enthusiasm of the company. Versatile enough to accommodate our very specific interests and facilities, it has been a pleasure to deal with them at all levels. The equipment has proven reliable, and represents excellent value for money. We have used several other manufacturers equipment over the years, but none have approached the quality provided by this equipment. Multiple users within the department can be easily trained to use the sophisticated display and analysis facilities within the software, and there are excellent facilities for exporting data, useful in interdepartmental meetings as well as getting other opinions in complex situations. I recommend them wholeheartedly.”

Prof MJ Cook
Department of Neurology
St. Vincent's Hospital

Why is EEG important to Compumedics?

EEG is the largest segment of the world market for Neurodiagnostics. In 2002 the world market for EEG devices alone, was estimated at USD460m and this is expected to grow to approximately USD900m in 2010.

The main markets for these devices are Europe and America with approximately 40% of the world market. However, Asia Pacific and Latin America markets are expected to grow over the next 10 years.

This growth is being driven by the growing prevalence of obesity, cardiovascular and autoimmune diseases.

The probability of occurrence of these diseases can be detected far earlier with routine EEG than other diagnostic techniques and hence the demand for these devices will increase.

Further driving growth for more flexible and easy to use EEG devices is a growing lack of suitably trained EEG technicians. This will drive all suppliers to the EEG market to develop more automated devices.

Further growth in the neuro diagnostic market is being driven by the growing need for patient care monitoring. Patient care monitoring includes regular monitoring of patients who are chronically ill or who have had some form of major surgical intervention. Such monitoring assures that if vital statistics change, early warning will prevent the situation becoming a far more serious clinical event.

Compumedics NeuroScience Competitive Advantages include:

1. Complete range from clinical to research methodologies

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

2. Complete vertical integration

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

3. Strong collaborative links

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

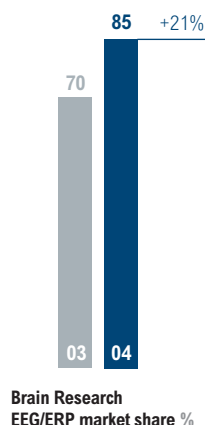
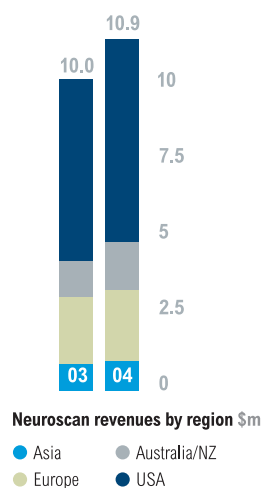
Neuroscan: Brain Research

Release innovative products to capitalise on opportunities and maintain leadership in all key markets.

“ We have been using a 64 Channel Neuroscan EEG/ERP system for research for over six years now. It has continuously demonstrated such unique and reliable qualities, that we have recently purchased a second system.

Within the Centre of Neuropsychology, these versatile systems are used as our principal brain function imaging tools for research into the biological basis of personality, clinical disorders, intelligence, the effects of mobile phones, the effects of illicit substances and normal cognitive neuroscience. As an EEG researcher, it is my opinion that the hardware and analysis & imaging software associated with these products not only surpasses industry standards, but are very flexible and user friendly as well. As important and reliable as this technology is, the steadfast support from Compumedics has been unequalled.”

Dr. Joseph Ciorciari, Psychophysiology Coordinator
Biomedical Sciences and Psychophysiology Lecturer
Basic & Clinical Psychophysiology Research Unit
Leader Centre for Neuropsychology School of
Biophysical Sciences and Electrical Engineering
Swinburne University of Technology



What is brain research?

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

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

Why is this important to Compumedics?

Leadership in advanced QEEG methods 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 neuro diagnostic businesses technologies into the future.

The Brain Research business is focused on working with key academics and researchers around the world in the pursuit of new neuro physiology research tools that have the potential to open up new clinical diagnostic solutions for known neurological disorders.

Neuroscan or the Brain Research business works with the key researchers and industry leaders who write the papers that form the basis of neuro diagnostic clinical practices for the next 10-15 years. The majority of these key decision makers use Compumedics Neuroscan products.



The world's most powerful and versatile physiological recorder contributing \$8m to full year revenue.

Government
funding in
the USA:

\$750M

18
19

Or to put it practically, approximately 1,400 physiological research laboratories across the world use Compumedics Neuroscan brain research products. These laboratories include pre-eminent 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 to the future and they all use Compumedics Neuroscan equipment.

This gives our neuro diagnostic business a significant competitive advantage into the future and will ensure the neuro diagnostic functionality in our sleep diagnostics also remains leading edge.

**Compumedics Neuroscan
Competitive Advantages include:**

1. **Superior Patented Technology**
Being one of the first providers of designer solutions for the research market, Compumedics Neuroscan is able to provide a single-provider solution, allowing the integration and scalability ensuring the greatest flexibility and upgrade potential
2. **Uncompromised system design**
With decades of experience, the R&D and Engineering teams have approached the system design of the software and hardware with scientific precision. The combination of advanced hardware and software sets the standard to which all other systems on the market are compared

3. **Highest Industry quality standard**
Compumedics Neuroscan has established quality systems to enable ongoing improvements and brain research instrument leadership. This level of certification can only be obtained by careful consideration in the design and engineering process and with reliable manufacturing methods.

NeuroMedical Supplies:

To grow this business into a leading supplier of consumables to not only our customer base but to the entire sleep and neuro industry.

What is NeuroMedical Supplies?

NeuroMedical Supplies is a leading manufacturer and distributor of supplies for Sleep and Neurodiagnostic Laboratories.

As pioneers in our field, we understand how important accessories, sensors and disposable items are in the diagnosis and study of sleep, the nervous system and the brain. Hence, through our intimate understanding of this area, we manufacture and procure supplies and accessories that are only of the highest quality.

NeuroMedical Supplies endeavours to provide our clients with competitively priced supplies and accessories available for their Sleep and Neurodiagnostic needs. We ensure that our customers' needs are met with the utmost care and efficiency. In fact, as a firm commitment from us, we aim to deliver our customers' supplies the same day if the order is received before 2pm.

Compumedics designs and manufactures its products from a facility located on a 6000sqm site in Melbourne, Australia. Our facilities and products are regularly audited for FDA, CE, ISO and ETL standards, to ensure that our customers receive consistent world-class products and services.

Installed
Neuroscan sites
in the USA:

1,400

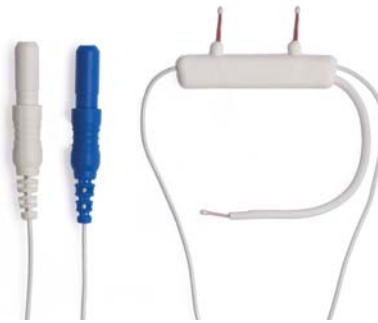
US Market for
Neuromedical
supplies:

\$130M





Product quality and
on-time delivery will
drive this business



Proprietary technology
underpins our goals for
this business



20
21



Standard and customer specified
configurations provide customers
with greater flexibility

Number of beds installed
with Compumedics sleep
equipment in the USA:

1,200

Board of Directors:



Mr David Burton

Executive Chairman, CEO

Mr Burton, 45, is the founder, Chairman and CEO of Compumedics. Established in 1987, and under Mr. Burton's leadership, Compumedics 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.

Mr. Burton has as an Associate Diploma in Electronics from the Royal Melbourne Institute of Technology, and is currently completing a PhD (Eng. Sc.) in the area of medical technology innovation at Monash University. With a background in engineering, which includes the design and project management of Compumedics' first laboratory and portable sleep systems, Mr Burton has authored fourteen patents or patent applications that form part of Compumedics' key intellectual property.

Mr. Burton is a former 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.

Mr. 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, Mr Burton was awarded the Ernst & Young Victorian Entrepreneur of the Year award for technology, communications, E-commerce and life sciences.



Mr Koichiro Koike

Non-Executive Director

Mr Koike, 47, worked for Compumedics as an export market development adviser from 1992 to 1998, during which time he secured substantial funding from Teijin Limited for the development of P-Series products. This subsequently led to Teijin being appointed as Compumedics' exclusive distributor in Japan. Still a Japanese national, he has been a permanent resident in Australia since 1990.



Professor Graham Mitchell AO

Non-Executive Director

Professor Mitchell, 63, 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, 48, 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).

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.

Senior Management:



Mr John Dyson

Non-Executive Director

Mr Dyson, 41, is an experienced venture capital manager, having made investments in a range of industries and technology companies. He is an Investment Principal of Starfish Ventures Pty Ltd. and has been involved in the venture capital industry since 1995. Mr Dyson has a background in corporate finance where he specialised in cross border merger and acquisition opportunities.



Mr David Burton

Executive Chairman, CEO



Mr Andrew Smith

Chief Operating Officer



Mr David Lawson

Chief Financial Officer & Company Secretary



Mr Warwick Freeman

Chief Technology Officer



Mr Jeff Kuznia

Vice President Sales & Marketing, USA



Mr David Loiterton

General Manager Sales, Marketing & Support Asia Pacific / Europe

Medical Advisory Board:

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

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

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



Professor Jack Clausen

B.Sc., M.D.
Chairman.

Prof. Clausen has over two decades of experience in developing national and international standards for medical instrumentation. In addition to his clinical activities, he has been a collaborator in multi-disciplinary

research projects involving disorders of respiration during sleep, pulmonary physiology, cardiology, anaesthesiology, emergency medicine and radiology.

Prof. Clausen is currently Director, Pulmonary Function, ABG, Exercise and Sleep Disorders Laboratories, Division of Pulmonary and Critical Care Medicine, University of California

at San Diego Medical Center, San Diego, California USA. He is also Clinical Professor of Medicine, University of California at San Diego, USA.



Professor Rob Pierce

M.B.B.S., M.R.A.C.P., F.R.A.C.P., M.D., F.C.C.P.

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

Prof. Pierce is a Director of Thoracic Services, Austin & Repatriation Medical Centre, Studley Road,

Heidelberg, Australia and a Prof. of Respiratory Medicine, The University of Melbourne, Parkville, Victoria, Australia.



Dr. Yuji Takasaki,

B.Sc., M.D.

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

Centre at Tokai University, one of the first specialised sleep laboratories in Japan.

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

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'Financial Statements 2004'

Directors' Report

Your Directors present their report on the consolidated entity consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2004.

DIRECTORS

The following persons were Directors of Compumedics Ltd. during the whole of the financial year and up to the date of this report:

- David Burton
- Koichiro Koike
- John Dyson
- Alan Anderson
- Prof. Graham Mitchell

PRINCIPAL ACTIVITIES

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

DIVIDENDS – COMPUMEDICS LIMITED

As and when the Company can afford to pay a dividend to its shareholders, and it is prudent to do so, then the Company will pay a dividend to its shareholders. The Company will review this from time to time.

REVIEW OF OPERATIONS

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

| | Sales Revenues | | Segment Results | |
|---|-------------------|-------------------|------------------|---------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Sleep | 18,215,751 | 17,676,922 | 1,932,998 | (6,184,070) |
| Neuroscan | 10,916,989 | 9,648,760 | 1,707,835 | (7,121,247) |
| Neuroscience | 1,974,792 | 2,138,731 | (880,566) | (5,777,594) |
| Neuro Medical Supplies | 2,855,886 | 2,591,730 | 180,891 | 623,746 |
| Total | 33,963,418 | 32,056,143 | 2,941,158 | (18,459,167) |
| Less: Unallocated revenue less unallocated expenses | | | (460,032) | (552,478) |
| Profit/(Loss) from ordinary activities before interest and income tax expense | | | 2,481,126 | (19,011,643) |
| Net interest revenue/(expense) | | | (72,070) | 46,877 |
| Income tax benefit/(expense) | | | (12,373) | 408,106 |
| Net profit/(loss) attributable to members of Compumedics Limited | | | 2,396,683 | (18,566,660) |

It is pleasing to note the return of the business to profits after tax at \$2.4m and the generation of net cash at \$1.0m for the year. It was also pleasing to note the overall growth in the business despite a strong Australian dollar.

Sleep

The sleep business at \$18.2m was 3% higher than the previous corresponding period. In US dollars the US business grew by 20% year on year.

Neuroscan

The Neuroscan business grew by 13% to \$10.9m over the previous corresponding period. The USA business grew by 42% in US dollars over the previous corresponding period.

Neuroscience

The Neuroscience business was 8% lower at \$2.0m over the corresponding previous period. In the USA the business grew by 52% in US dollars.

Neuro Medical Supplies

The Neuromedical supplies business grew by 10% to \$2.9m over the previous corresponding period. In the USA the business grew by 102% in US dollars over the previous corresponding period.

DETAILS FROM EPS NOTE TO ACCOUNTS

Earnings per Share

| | Notes | 2004 Cents | 2003 Cents |
|--|-------|---------------|---------------|
| Basic earnings per share | 34 | 1.7 | (13.3) |
| Diluted earnings per share | 34 | 1.7 | (13.3) |
| Basic earnings per share based on earnings before interest, tax, depreciation and amortisation | 34 | 2.1 | 1.4 |
| Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation | 34 | 2.1 | 1.4 |

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On September 1, 2004 Compumedics Limited, through its 100% owned subsidiary Compumedics Germany GmbH, acquired the business of DWL Elektronische Systems GmbH for total consideration of EUR1.5m. The purchase price for the acquisition was fully funded by new facilities provided by the ANZ Bank.

In addition, the ANZ Bank has provided a further EUR1.5m working capital facility for use by Compumedics Germany GmbH.

Compumedics, for its EUR1.5m purchase price, acquired 30 staff, inventory and fixed assets from DWL Elektronische Systems GmbH. It is expected that the business will generate revenues of EUR3 to 5m through to the end of 30 June 2005 and a small profit on these numbers.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

INFORMATION ON DIRECTORS

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

| Director | Experience | Special Responsibilities | Ordinary Shares | Options |
|----------------------|---|---|-----------------|---------|
| David Burton | Executive Director for 17 years. Chairman for 17 years. | Member of Remuneration Committee | 89,761,608 | 292,645 |
| Koichiro Koike | Non-executive Director for 5 years. Executive Director for 3 years. | Non-executive Director, Corporate Development | – | 660,000 |
| John Dyson | Non-executive Director for 8 years. | Chairman of Audit Committee | 120,000 | 216,000 |
| Prof Graham Mitchell | Non-executive Director for 3 years, 7 months. | Member of the Remuneration Committee | – | 66,000 |
| Alan Anderson | Non-executive Director for 3 years, 7 months. Attorney at Law based in the USA. | Chairman of the Remuneration Committee. Member of the Audit Committee | 25,000 | 86,000 |

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 eight years.

Directors' Report

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 2004, and the numbers of meetings attended by each Director were:

| | Full Meeting of Directors | | Meetings of Committees | | | |
|----------------------|------------------------------|----|------------------------|---|--------------|---|
| | A | B | Audit | | Remuneration | |
| | A | B | A | B | A | B |
| David Burton | 12 | 12 | – | – | 3 | 3 |
| Koichiro Koike | 10 | 12 | – | – | – | – |
| John Dyson | 10 | 12 | 3 | 3 | – | – |
| Prof Graham Mitchell | 10 | 12 | – | – | 3 | 3 |
| Alan Anderson | 9 | 12 | 2 | 3 | 3 | 3 |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

REMUNERATION REPORT

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward 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 data, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2003. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

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

Retirement allowances for directors

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

Executive pay

The executive pay and reward framework has four components:

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

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

Base pay

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

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

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

Benefits

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

Retirement benefits

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

Short-term incentives

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

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

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

For the year ended 30 June 2004, 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 senior executive team.

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

The STI target annual payment is reviewed annually.

Compumedics Employee Option Plan

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

Directors' Report

Details of remuneration

Details of the nature and amount of each element of the emoluments of each director of Compumedics Limited and each of the officers of the company and the consolidated entity receiving the highest emoluments for the year ended 30 June 2004 are set out in the following tables.

Directors of Compumedics Limited

| Name | Primary | | | Post-employment | | Equity | Total |
|-----------------------|----------------------------|------------------|-----------------------------|-----------------------|---------------------------|---------------|---------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Options \$ | |
| David Burton | 330,000 | — | — | — | — | — | 330,000 |
| Koichiro Koike | 75,965 | — | — | 6,837 | — | — | 82,802 |
| John Dyson | 35,000 | — | — | — | — | 5,500 | 40,500 |
| Prof. Graham Mitchell | 30,023 | — | — | 2,477 | — | — | 32,500 |
| Alan Anderson | 37,500 | — | — | — | — | — | 37,500 |

Other executives of Compumedics Limited

| Name | Primary | | | Post-employment | | Equity | Total |
|-----------------|----------------------------|------------------|-----------------------------|-----------------------|---------------------------|---------------|---------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Options \$ | |
| Warwick Freeman | 161,731 | — | 17,485 | 14,556 | — | — | 193,772 |
| David Lawson | 184,665 | — | — | 16,380 | — | — | 201,045 |
| Andrew Smith | 179,891 | — | — | 16,190 | — | — | 196,081 |
| David Loiterton | 140,308 | 10,000 | 15,000 | 13,476 | — | 7,500 | 186,284 |

Other executives of the consolidated entity

| Name | Primary | | | Post-employment | | Equity | Total |
|-----------------|----------------------------|------------------|-----------------------------|-----------------------|---------------------------|---------------|---------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Options \$ | |
| Stephen Sands | 255,182 | — | — | — | — | — | 255,182 |
| David Lawson | 184,665 | — | — | 16,380 | — | — | 201,045 |
| Andrew Smith | 179,891 | — | — | 16,190 | — | — | 196,081 |
| Jeff Kuznia | 172,205 | 9,895 | 10,150 | — | — | — | 192,250 |
| Warwick Freeman | 161,731 | — | 17,485 | 14,556 | — | — | 193,772 |

Service agreements

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

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2004 of \$330,000, to be reviewed annually by the remuneration committee

Andrew Smith, *Chief Operating Officer*

- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of \$196,081, to be reviewed annually by the remuneration committee
- Review of last salary – 1 October 2003

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$198,380, to be reviewed annually by the remuneration committee
- Incentive Bonus of \$20,000 based on company profit targets after tax
- Review of last salary – 1 January 2004

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$169,758, to be reviewed annually by the remuneration committee
- Car allowance of \$17,156
- Review of last salary – 1 September 2003

David Loiterton, *General Manager Sales and Marketing*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$147,150, to be reviewed annually by the remuneration committee
- Car Allowance of \$15,000
- Bonus of \$30,000 based on Rest of World revenue and profit budget numbers
- Senior manager bonus of \$25,000 based on Group achieving budgeted revenue and profit targets
- Review of last salary – 1 July 2003

Stephen Sands, *Chief Scientist*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$178,500USD, to be reviewed annually by the remuneration committee
- Review of last salary – 1 January 2004

Daniel Moore, *VICE President Sales and Marketing, USA (from 1 July 2003 – 7 April 2004)*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$112,500USD for period ended 7 April 2004, to be reviewed annually by the remuneration committee
- Review of last salary – 1 January 2004

Jeff Kuznia, *Product Manager (1 July 2003 – 7 April 2004), VICE President Sales and Marketing, USA (from 8 April 2004 – 30 June 2004)*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$120,458USD, to be reviewed annually by the remuneration committee
- Review of last salary – 1 April 2004

Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in Note 25 to the financial statements.

Directors' Report

SHARE OPTIONS GRANTED TO DIRECTORS AND THE MOST HIGHLY REMUNERATED OFFICERS

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

| Directors | Options Granted | Exercise Price (\$) | Expiry Date | Market Price at Grant Date (\$) | Indicative value (\$) |
|---|--------------------|------------------------|----------------|------------------------------------|--------------------------|
| John Dyson, Audit Committee Chairman | 50,000 | 0.31 | 2009 | 0.31 | 5,500 |
| Other executives of Compumedics Limited | | | | | |
| David Loiterton, General Manager, Sales and Marketing | 50,000 | 0.43 | 2008 | 0.43 | 7,500 |

SHARES UNDER OPTION

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

| | Number | Exercise Price of Shares (\$) | Expiry Date |
|--|------------------|----------------------------------|-------------|
| Options issued at IPO | 5,238,000 | 0.50 | 21 Dec 2005 |
| (adjusted for retirements) | (575,000) | 0.50 | 21 Dec 2005 |
| New Issues for the year ended 30 June 2002 | 220,423 | 0.40 to 0.95 | Various |
| (adjusted for retirements) | (10,000) | 0.95 | 1 Mar 2006 |
| New Issues for the year ended 30 June 2003 | 222,222 | 0.01 | 24 Dec 2007 |
| New Issues for the year ended 30 June 2004 | 50,000 | 0.43 | 8 Dec 2008 |
| New Issues for the year ended 30 June 2004 | 50,000 | 0.31 | 11 Apr 2009 |
| Total | 5,195,645 | | |

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

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

For options exercisable on or after the exercise date, the share price hurdle must have been achieved for any 30 continuous days. The third tranche of shares are yet to become exercisable.

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

INSURANCE OF OFFICERS

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

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

AUDITOR

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

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



D Burton
Director

Melbourne
10 September 2004

Corporate Governance Statement

Compumedics Limited (Compumedics) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. An extensive review of the Company's corporate governance framework was completed in August and September 2003 in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003. The Company's framework was largely consistent with the recommendations and exceeded them in some areas. However, a number of changes are being made as a result of this review and other recent governance developments. Changes to the Company's governance arrangements made in the course of the last year, particularly introduction of the CEO (Chief Executive Officer) and CFO (Chief Financial Officer) certifications, are highlighted in this statement. 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 Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approval of the corporate strategy.
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- overseeing and monitoring organisational performance and the achievement of the Group's strategic goals and objectives compliance with the Company's Code of Conduct.
- progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments.
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors.
- ratifying the appointment and/or removal and contributing to the performance assessment of 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 and term of office are set out in the directors' report under the heading "Information on directors". There are four 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 directors' report.

Corporate Governance Statement

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.

Term of office

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

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

Chairman and Chief Executive Officer (Executive Chairman)

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

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

Commitment

The Board held twelve board meetings.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2004, and the number of meetings attended by each director is disclosed in the Directors' Report.

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

Independent professional advice

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

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. This assessment was undertaken during September 2003.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate reporting

The CEO and CFO have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

The Company adopted this reporting structure for the year ended 30 June 2004.

Board committees

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

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

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

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

REMUNERATION COMMITTEE

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

A Anderson (Chairman)

G Mitchell

and the following executive director

D Burton

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

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

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

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

Further information on directors' and executives' remuneration is set out in the directors' report and note 25 to the financial statements.

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

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

Corporate Governance Statement

AUDIT COMMITTEE

The Audit Committee consists of the following non-executive directors:

J Dyson (Chairman)
A Anderson

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

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

The Audit Committee operates in accordance with a charter currently being finalised. The main responsibilities of the committee are to:

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

In fulfilling its responsibilities, the Audit Committee:

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

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

EXTERNAL AUDITORS

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers were appointed as the external auditors in 1996.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 26 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 is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

RISK ASSESSMENT AND MANAGEMENT

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

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

CODE OF CONDUCT

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

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

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

The Code and the Company's trading policy is discussed with each new employee as part of their induction training and all employees will be 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 using the Company's whistleblower program. This can be done anonymously.

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

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

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

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

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

Statements of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2004

| | Notes | Consolidated | | Parent entity | |
|--|---------|--------------|--------------|---------------|--------------|
| | | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Revenue from sale of goods and services | 3 | 33,963,418 | 32,056,143 | 20,979,960 | 19,942,295 |
| Cost of sales (a) | | (14,580,181) | (14,169,621) | (8,644,296) | (9,772,444) |
| Gross profit | | 19,383,237 | 17,886,522 | 12,335,664 | 10,169,851 |
| Other revenues from operating activities | 3 | 376,535 | 381,664 | 375,930 | 345,964 |
| Other expenses from operating activities | | | | | |
| Administration | | (3,486,841) | (4,230,273) | (2,478,674) | (2,750,770) |
| Sales & Marketing | | (6,842,079) | (6,266,996) | (3,383,681) | (2,478,187) |
| Research & Development | | (6,500,119) | (6,707,590) | (3,997,849) | (5,666,323) |
| Service (a) | | – | (1,965,656) | – | (405,595) |
| Logistics (a) | | – | (647,945) | – | – |
| Borrowing costs | 4 | (267,888) | (187,123) | (255,595) | (161,495) |
| Accelerated Amortisation Charge | 4b & 13 | – | (17,858,371) | – | (12,592,732) |
| Writedown of investment | 4b & 13 | – | – | – | (7,083,050) |
| Net foreign exchange gain / (loss) | 4 | (253,789) | 631,003 | (25,722) | 512,580 |
| Net Profit / (Loss) from ordinary activities before income tax expense | 4 | 2,409,056 | (18,964,766) | 2,570,073 | (20,109,757) |
| Income tax (expense) / benefit | 5 | (12,373) | 408,106 | – | 253,299 |
| Net Profit / (Loss) from ordinary activities after income tax expense | | 2,396,683 | (18,556,660) | 2,570,073 | (19,856,458) |
| Net Profit / (Loss) attributable to members of Compumedics Limited | | 2,396,683 | (18,556,660) | 2,570,073 | (19,856,458) |
| Total changes in equity other than those resulting from transactions with owners as owners | | 2,396,683 | (18,556,660) | 2,570,073 | (19,856,458) |
| (a) In the prior year service and logistics expenses were disclosed separately. In the current year these items now form part of cost of goods sold. | | | | | |
| | | Cents | Cents | | |
| Basic earnings per share | 34 | 1.7 | (13.3) | | |
| Diluted earnings per share | 34 | 1.7 | (13.3) | | |
| Basic earnings per share based on earnings before interest, tax, depreciation and amortisation | 34 | 2.1 | 1.4 | | |
| Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation | 34 | 2.1 | 1.4 | | |

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

Statements of Financial Position

AS AT 30 JUNE 2004

| | Notes | Consolidated | | Parent entity | |
|--|-------|--------------|--------------|---------------|--------------|
| | | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| CURRENT ASSETS | | | | | |
| Cash assets | 6 | 6,351,637 | 5,366,091 | 5,443,565 | 4,775,066 |
| Receivables | 7 | 10,239,362 | 8,624,141 | 5,039,957 | 4,591,240 |
| Inventories | 8 | 6,481,192 | 8,416,224 | 3,901,529 | 4,996,382 |
| Other | 9 | 68,608 | 179,766 | 53,628 | 118,104 |
| Total Current Assets | | 23,140,799 | 22,586,222 | 14,438,679 | 14,480,792 |
| NON-CURRENT ASSETS | | | | | |
| Receivables Non-Current | 10 | — | — | 5,661,721 | 5,123,381 |
| Other financial assets | 11 | — | — | 148,290 | 148,290 |
| Property, plant and equipment | 12 | 1,368,407 | 1,176,179 | 898,869 | 807,507 |
| Intangible assets | 13 | — | — | — | — |
| Non-Current Assets | | 1,368,407 | 1,176,179 | 6,708,880 | 6,079,178 |
| Total Assets | | 24,509,206 | 23,762,401 | 21,147,559 | 20,559,970 |
| CURRENT LIABILITIES | | | | | |
| Payables | 14 | 4,614,003 | 5,119,431 | 2,826,672 | 3,566,754 |
| Interest bearing liabilities Current | 15 | 1,884,071 | 4,728,980 | 1,932,869 | 4,777,778 |
| Current tax liabilities | 16 | 55,246 | 52,400 | — | — |
| Provisions | 17 | 345,913 | 304,277 | 164,674 | 158,910 |
| Other current liabilities | 18 | 1,329,906 | 1,216,630 | 484,051 | 430,008 |
| Total Current Liabilities | | 8,229,139 | 11,421,718 | 5,408,265 | 8,933,450 |
| NON-CURRENT LIABILITIES | | | | | |
| Interest bearing liabilities Non-Current | 19 | 2,122,459 | 507,857 | 2,122,459 | 507,857 |
| Provisions – Non-Current | 20 | 197,632 | 157,609 | 197,632 | 157,609 |
| Other Non-Current Liabilities | 21 | 14,881 | — | 14,881 | — |
| Total Non-Current Liabilities | | 2,334,972 | 665,466 | 2,334,972 | 665,466 |
| Total Liabilities | | 10,564,111 | 12,087,184 | 7,743,237 | 9,598,916 |
| Net Assets | | 13,945,095 | 11,675,217 | 13,404,322 | 10,961,054 |
| EQUITY | | | | | |
| Contributed equity | 22 | 29,020,201 | 29,147,006 | 29,020,201 | 29,147,006 |
| Retained profits | 23 | (15,075,106) | (17,471,789) | (15,615,879) | (18,185,952) |
| Total Equity | | 13,945,095 | 11,675,217 | 13,404,322 | 10,961,054 |

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

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2004

| | Notes | Consolidated | | Parent entity | |
|--|-------|--------------|--------------|---------------|--------------|
| | | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers (Inclusive of GST) | | 32,625,045 | 31,781,694 | 20,269,753 | 17,139,346 |
| Payments to suppliers & employees (Inclusive of GST) | | (23,619,845) | (29,020,527) | (14,310,001) | (14,966,526) |
| Payments for R&D activities (Inclusive of GST) | | (6,500,119) | – | (3,997,847) | – |
| | | (30,119,964) | (29,020,527) | (18,307,848) | (14,966,526) |
| Interest and other items of a similar nature | | 195,818 | 234,017 | 195,628 | 233,971 |
| Other revenue | | 180,718 | 147,648 | 180,302 | 111,994 |
| Interest and other costs of finance paid | | (267,888) | (187,123) | (255,595) | (161,495) |
| Income taxes paid | | 15,552 | – | – | – |
| Net cash inflow from operating activities | 33 | 2,629,281 | 2,955,708 | 2,082,240 | 2,357,289 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payment for purchase of controlled entity net of cash acquired | 31 | (2,292,930) | (733,735) | (2,292,930) | (733,735) |
| Payments for property, plant and equipment | | (652,260) | (770,711) | (422,265) | (634,037) |
| Payments for goodwill acquired | | – | (19,579) | – | (19,579) |
| Payments for intellectual property costs | | – | (3,948,159) | – | (3,948,159) |
| Receipts of grants for intellectual property | | – | 59,000 | – | 59,000 |
| Proceeds from sale of property, plant and equipment | | 5,500 | – | 5,500 | – |
| Net cash outflow from investing activities | | (2,939,690) | (5,413,184) | (2,709,695) | (5,276,510) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from borrowings | | 3,847,217 | – | 3,847,217 | – |
| Repayments of finance leases | | (42,826) | (132,089) | (42,826) | (132,088) |
| Payment of GST from IPO | | (126,805) | – | (126,805) | – |
| Repayment of borrowings | | (2,381,632) | (577,644) | (2,381,632) | (577,644) |
| Net cash inflow / (outflow) from financing activities | | 1,295,955 | (709,733) | 1,295,954 | (709,732) |
| Net increase / (decrease) in cash held | | 985,546 | (3,167,208) | 668,499 | (3,628,952) |
| Cash at the beginning of the financial year | | 5,366,091 | 8,533,299 | 4,775,066 | 8,404,018 |
| Cash Balance at the end of the financial year | 6 | 6,351,637 | 5,366,091 | 5,443,565 | 4,775,066 |

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Compumedics Limited as at 30 June 2004 and the results of all controlled entities for the year then ended. Compumedics Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

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

(b) Warranty

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

(c) Intangible assets and expenditure carried forward

(i) Research and development

Research and development expenditure are charged to operating profit before income tax as incurred or deferred when it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised. As described in Note 13 accelerated amortisation was applied in 2003.

(ii) Patents and trademarks

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

(iii) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise. As described in Note 13 accelerated amortisation was applied in 2003.

(iv) Intellectual Property acquired

Intellectual property acquired on the acquisition of an entity or operation is capitalized at cost where it is expected beyond any reasonable doubt to be recoverable. Intellectual property is amortised from acquisition on a straight line basis over the period of the expected benefit. As described in Note 13 accelerated amortisation has been applied in 2003.

(d) Revenue recognition – change of accounting treatment

Amounts disclosed as revenues are net of returns, trade allowances and duties and taxes paid. In addition, the revenue recognition policy defers 20% of revenue to end user customers until the post sale training and installation obligations have been completed. This revenue is then recognised at that time.

The recognition of revenue on this basis reflects the post sale training and installation obligations that exist with direct sales to end user customers, in situations where a post sale training and installation obligation exists.

Where service contracts are entered into with customers over extended periods, revenue is recognised evenly over the life of the contract. Revenue not recognised, is deferred and recorded as revenue in advance (Note 18).

(e) Receivables

All trade debtors are recognised at the amounts receivable, as they are generally due for settlement no more than 30 days from shipment of goods, except where an installation and training obligation exists. On these sales, 20% of the invoice value is not payable until the completion of these activities. Typically these activities occur within 60 days of the shipment of the goods.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

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

(f) Inventories

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

(g) Recoverable amount of non-current assets

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

(h) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives for all categories of property, plant and equipment are between 3 and 6 years.

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

(i) Employee entitlements

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors 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*

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

(iii) *Equity-based compensation benefits*

Equity-based compensation benefits are provided to employees via the Compumedics Employee Share Scheme. Information relating to these schemes is set out in note 29.

No accounting entries are made in relation to the Compumedics Employee Share Scheme until options are exercised, at which time the amounts receivable from employees are recognized in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in note 25 include the assessed fair values of options at the date they were granted.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognized as a liability and as part of employee benefit costs when the employees become entitled to the shares. When the shares are issued, their market value is recognized in the statement of financial position as share capital.

(j) Reclassification of liabilities for certain employee benefits

Liabilities for wages and salaries, annual leave and related on-costs expected to be settled within 12 months of reporting date have been reclassified from provisions to other creditors in the current year as a result of the adoption of the new accounting standard, AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. The directors do not believe there are any significant uncertainties relating to the amount and timing of future payments included in the liabilities for these employee benefits, therefore they do not meet the definition of a provision under the new standard. Comparative amounts have also been reclassified to ensure compatibility with the new reporting period.

(k) Cash

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

(l) **Trade and other creditors**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) **Income tax**

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

No provision is made for additional taxes which could become payable if certain reserves of the foreign controlled entity were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

(n) **Foreign currency translation**

(i) *Transactions*

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

(ii) *Specific commitments*

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

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

(iii) *Foreign controlled entity*

Where the controlled entities are integrated with the activities of the parent entity, the assets, liabilities and equity of these operations are consolidated using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenue and expenses, are translated using historic rates of exchange or average rates of exchange for the year, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expense by the consolidated entity.

(o) **Directors' and Executive Remuneration**

Directors and Executives remuneration disclosed in the financial statements in Note 25 includes an indicative fair value of options at the date they are granted.

(p) **Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. The life of the lease is four years.

(q) **Borrowing costs**

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

Borrowing costs include:

- Interest on bank overdrafts and short-term and long-term borrowings
- Finance lease charges, and
- Certain exchange differences arising from foreign currency borrowings.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

(r) Earnings per share

(i) *Basic earnings per share*

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

(ii) *Diluted earnings per share*

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

(s) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue AASB equivalents to IFRS, and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian International Financial Reporting Pronouncements (AIFRPs). The adoption of AIFRPs will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The Group has established a project team to manage the transition to AIFRPs, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the CFO and reports to the audit committee. The team is preparing a detailed timetable for managing the transition to AIFRPs and is currently on schedule. To date the project team has analysed most of the AIFRPs and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 *First-time Adoption of Australian International Financial Reporting Pronouncements*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the Group.

Major changes identified to date that will be required to the Group's existing accounting policies include the following:

(i) *Income tax*

Under the Australian equivalent to IAS 12 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

(ii) *Intangible assets – goodwill*

Under the Australian equivalent to IFRS 3 *Business Combinations*, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

(iii) *Equity-based compensation benefits*

Under the Australian equivalent to IFRS 2 *Share-based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRPs, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to AIFRPs on the Group's financial position and reported results.

NOTE 2. SEGMENT INFORMATION

Primary Reporting – Business Segments

2004

| | Sleep | Neuroscan | Neuro- science | Neuro Medical Supplies | Unallocated/ Elimination | Consolidated |
|--|------------|------------|-------------------|------------------------------|-----------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Sales to external customers | 18,215,751 | 10,916,989 | 1,974,792 | 2,855,886 | | 33,963,418 |
| Intersegment sales | – | – | – | – | | – |
| Total sales revenue | 18,215,751 | 10,916,989 | 1,974,792 | 2,855,886 | – | 33,963,418 |
| Other revenue | 96,924 | 58,089 | 10,508 | 15,196 | | 180,717 |
| Total segment revenue | 18,312,675 | 10,975,078 | 1,985,300 | 2,871,082 | – | 34,144,135 |
| EBIT – Segment Result | 1,932,998 | 1,707,835 | (880,566) | 180,891 | (460,032) | 2,481,126 |
| Interest expense | | | | | | (72,070) |
| Tax expense | | | | | | (12,373) |
| Net profit after interest and tax | | | | | | 2,396,683 |
| Segment assets | 8,322,027 | 5,092,021 | 1,233,563 | 1,720,113 | – | 16,367,725 |
| Unallocated assets | | | | | | 8,141,482 |
| Tax assets | | | | | | – |
| Total assets | | | | | | 24,509,207 |
| Segment liabilities | 2,932,311 | 5,763,911 | 317,896 | 459,731 | – | 9,473,849 |
| Unallocated liabilities | | | | | | 1,035,016 |
| Tax liabilities | | | | | | 55,246 |
| Total liabilities | | | | | | 10,564,111 |
| Net assets | | | | | | 13,945,096 |
| Acquisition of PPE | | | | | | 652,260 |
| Acquisition of intangibles and other non-current segment assets | – | – | – | – | – | – |
| Depreciation and amortisation | – | – | – | – | (460,032) | (460,032) |
| Other non-cash expenses | – | – | – | – | – | – |

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Primary Reporting – Business Segments

2003

| | Sleep | Neuroscan | Neuro- science | Neuro Medical Supplies | Unallocated/ Elimination | Consolidated |
|---|-------------|-------------|-------------------|------------------------------|-----------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Sales to external customers | 17,676,922 | 9,648,760 | 2,138,731 | 2,591,730 | | 32,056,143 |
| Intersegment sales | – | – | – | – | | – |
| Total sales revenue | 17,676,922 | 9,648,760 | 2,138,731 | 2,591,730 | – | 32,056,143 |
| Other revenue | 81,410 | 44,446 | 9,852 | 11,939 | | 147,647 |
| Total segment revenue | 17,758,332 | 9,693,206 | 2,148,583 | 2,603,669 | – | 32,203,790 |
| EBIT – Segment Result | (6,184,070) | (7,121,247) | (5,777,594) | 623,746 | (552,478) | (19,011,643) |
| Interest income | | | | | | 46,877 |
| Tax benefit | | | | | | 408,106 |
| Net loss after interest and tax | | | | | | (18,556,660) |
| Segment assets | 10,259,145 | 3,559,914 | 858,327 | 2,362,980 | – | 17,040,366 |
| Unallocated assets | | | | | | 6,722,035 |
| Tax assets | | | | | | – |
| Total assets | | | | | | 23,762,401 |
| Segment liabilities | 4,020,263 | 6,335,945 | 305,460 | 370,159 | – | 11,031,827 |
| Unallocated liabilities | | | | | | 1,055,357 |
| Tax liabilities | | | | | | – |
| Total liabilities | | | | | | 12,087,184 |
| Net assets | | | | | | 11,675,217 |
| Acquisition of property, plant and equipment | | | | | | 770,711 |
| Acquisition of intangibles and other non-current segment assets | 2,762,888 | 1,126,271 | – | – | – | 3,889,159 |
| Depreciation and Amortisation | 9,731,905 | 4,188,284 | 6,251,639 | 190,000 | 552,478 | 20,914,306 |
| Other non-cash expenses | – | – | – | – | – | – |

NOTE 2. SEGMENT INFORMATION (CONTINUED)

Secondary Reporting – Geographical Segments

| 2004 | USA | Rest of World | Eliminations | Consolidated Amount |
|---|------------|---------------|--------------|---------------------|
| | \$ | \$ | \$ | \$ |
| Sales to external customers | 18,019,925 | 15,943,493 | – | 33,963,418 |
| Intersegment sales | 1,348,118 | 5,036,467 | (6,384,585) | – |
| Total sales revenue | 19,368,043 | 20,979,960 | (6,384,585) | 33,963,418 |
| Segment assets | 9,090,010 | 21,081,123 | (5,661,926) | 24,509,207 |
| Tax assets | | | | – |
| Total assets | | | | 24,509,207 |
| Acquisition of property, plant and equipment | 235,495 | 416,764 | – | 652,260 |
| Acquisition of intangibles and other non-current segment assets | – | – | – | – |

Secondary Reporting – Geographical Segments

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

Notes to and forming part of the segment information

(a) Notes to the segment information

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

(b) Geographical segments

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

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2004

| | Consolidated | | Parent entity | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 3. REVENUE | | | | |
| REVENUE FROM OPERATING ACTIVITIES | | | | |
| Sale of goods | 33,295,795 | 31,298,967 | 20,384,799 | 19,210,029 |
| Services | 667,623 | 757,176 | 595,161 | 732,266 |
| | 33,963,418 | 32,056,143 | 20,979,960 | 19,942,295 |
| REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES | | | | |
| Interest | 195,818 | 234,017 | 195,628 | 233,970 |
| Government Grants | 131,062 | 98,713 | 131,062 | 98,713 |
| Other | 49,656 | 48,935 | 49,240 | 13,281 |
| | 376,535 | 381,664 | 375,930 | 345,964 |
| Revenue from ordinary activities | 34,339,953 | 32,437,807 | 21,355,891 | 20,288,259 |
| NOTE 4. PROFIT FROM ORDINARY ACTIVITIES | | | | |
| (a) Profit from ordinary activities before income tax expense includes the following specific net gains and expenses: | | | | |
| GAINS | | | | |
| Gain on disposal of non-current assets | 5,500 | – | 5,500 | – |
| Net foreign exchange gain | – | 631,033 | – | 512,580 |
| EXPENSES | | | | |
| Depreciation – plant and equipment | 460,032 | 552,478 | 330,903 | 411,587 |
| Amortisation – intellectual property, patents, trademarks and goodwill (b) | – | 20,361,828 | – | 14,329,923 |
| Writedown of investment (b) | – | – | – | 7,083,050 |
| Provision for inventory obsolescence | 433,764 | 255,733 | 270,732 | 255,733 |
| Provision for doubtful trade debtors | 166,166 | 30,491 | 171,788 | 90,654 |
| Borrowing costs | 267,888 | 187,123 | 255,595 | 161,495 |
| Service warranty provisions | 124,179 | 131,462 | 88,307 | 77,659 |
| Operating leases – minimum lease payments | 764,897 | 707,060 | 434,701 | 410,468 |
| Net foreign exchange loss | 253,789 | – | 25,722 | – |
| (b) Individually significant items: | | | | |
| (i) Write-down of intangible assets, goodwill acquired and Provision for diminution in investment | | | | |
| Refer to commentary noted at Note 13. | | | | |

| | Consolidated | | Parent entity | |
|--|--------------|--------------|---------------|--------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 5. INCOME TAX EXPENSE | | | | |
| The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows: | | | | |
| Profit (loss) from ordinary activities before income tax expense / (benefit) | 2,409,055 | (18,964,766) | 2,570,073 | (20,109,757) |
| Income tax calculated at 30% | 722,717 | (5,689,430) | 771,022 | (6,032,927) |
| Tax effect of permanent differences | | | | |
| 25% non-grant R&D loading/allowance | (324,101) | (248,484) | (324,101) | (248,484) |
| Non-deductible entertainment expenses | 9,334 | 8,514 | 9,334 | 8,514 |
| Other non-deductible permanent differences | 69,717 | (35,527) | – | – |
| Non-deductible intellectual property write-down | – | 2,591,352 | – | 3,147,313 |
| Timing differences not brought to account | 521,105 | 864,162 | 548,885 | 573,229 |
| Current tax losses not brought to account (note a) | – | 1,568,021 | – | 1,537,074 |
| Write off tax losses previously brought to account (note a) | – | 670,586 | – | 670,586 |
| Utilisation of prior year tax losses | (968,755) | – | (1,005,140) | – |
| Income tax adjusted for permanent differences | 30,017 | (270,806) | – | (344,695) |
| Under / (over) provision in previous year | (17,644) | (137,300) | – | 91,396 |
| Aggregate income tax expense / (benefit) | 12,373 | (408,106) | – | (253,299) |
| Aggregate income tax / (benefit) comprises: | | | | |
| Current taxation provision | 30,017 | – | – | – |
| Net deferred tax asset not brought to account (a) | – | (270,806) | – | (344,695) |
| Under / (over) provision in prior year | (17,644) | (137,300) | – | 91,396 |
| Income tax expense / (benefit) | 12,373 | (408,106) | – | (253,299) |
| TAX LOSSES | | | | |
| The directors estimate that the Future Income Tax Benefit at 30 June 2004, in respect of tax losses not brought to account is | 2,529,900 | 3,498,655 | 2,462,568 | 3,467,708 |

- (a) The benefit of tax losses will only be obtained if:
- (i) the company derived future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised.
 - (ii) the company continued to comply with the conditions for deductibility imposed by tax legislation, and
 - (iii) no change in tax legislation adversely affected the company in realising the benefit from the deductions for the loss
- (b) Compumedics Limited and its wholly owned Australian controlled entities have not yet decided whether to implement the tax consolidation legislation. No deferred tax balances are recorded within the accounts of Compumedics Limited.

Notes to Financial Statements
FOR THE YEAR ENDED 30 JUNE 2004

| | Consolidated | | Parent entity | |
|---|-------------------|------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 6. CURRENT ASSETS – CASH ASSETS | | | | |
| Cash at Bank and on deposit | 6,351,637 | 5,366,091 | 5,443,565 | 4,775,066 |
| The above figures are as noted in the statements of cash flows. | | | | |
| NOTE 7. CURRENT ASSETS – RECEIVABLES | | | | |
| Trade debtors | 10,376,084 | 9,096,332 | 4,857,097 | 4,489,602 |
| Less: Provision for doubtful debts | (477,949) | (712,936) | (145,783) | (92,417) |
| | 9,898,135 | 8,383,396 | 4,711,314 | 4,397,185 |
| Other debtors | 136,450 | 240,745 | 123,866 | 194,055 |
| Receivable from Director related parties | 204,777 | – | 204,777 | – |
| TOTAL | 10,239,362 | 8,624,141 | 5,039,957 | 4,591,240 |
| NOTE 8. CURRENT ASSETS – INVENTORIES | | | | |
| Raw materials – at cost | 4,701,751 | 5,704,854 | 2,996,905 | 3,178,899 |
| Work in progress – at cost | 357,738 | 394,348 | 341,827 | 392,888 |
| Finished goods – at cost | 3,445,297 | 3,906,852 | 2,342,869 | 2,933,935 |
| Less: Provision for obsolescence | (2,023,594) | (1,589,830) | (1,780,072) | (1,509,340) |
| TOTAL | 6,481,192 | 8,416,224 | 3,901,529 | 4,996,382 |
| NOTE 9. CURRENT ASSETS – OTHER | | | | |
| Prepayments | 68,608 | 101,791 | 53,628 | 40,127 |
| Income tax refund receivable | – | 77,975 | – | 77,975 |
| TOTAL | 68,608 | 179,766 | 53,628 | 118,102 |
| NOTE 10. NON-CURRENT ASSETS – RECEIVABLES | | | | |
| Amounts owing from controlled entities | – | – | 5,661,721 | 5,123,381 |
| NOTE 11. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS | | | | |
| Shares in controlled entities – at cost (note 31) | – | – | 7,231,340 | 7,231,340 |
| Less provision for diminution | – | – | (7,083,050) | (7,083,050) |
| TOTAL | – | – | 148,290 | 148,290 |

| | Consolidated | | Parent entity | |
|--|------------------|------------------|----------------|----------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 12. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT | | | | |
| PLANT & EQUIPMENT | | | | |
| Plant & Equipment at cost | 547,915 | 543,005 | 442,504 | 440,408 |
| Less: Accumulated depreciation | (434,195) | (377,889) | (384,653) | (342,123) |
| | 113,720 | 165,116 | 57,851 | 98,285 |
| Plant & Equipment under lease | 356,765 | 212,054 | 356,765 | 212,054 |
| Less: Accumulated depreciation | (207,155) | (204,825) | (207,155) | (204,825) |
| | 149,610 | 7,229 | 149,610 | 7,229 |
| MOTOR VEHICLES | | | | |
| Motor Vehicles at cost | 156,561 | 132,948 | 18,550 | 45,436 |
| Less: Accumulated depreciation | (65,334) | (64,448) | (18,550) | (45,436) |
| | 91,227 | 68,500 | – | – |
| OFFICE EQUIPMENT | | | | |
| Office Equipment at cost | 1,785,973 | 1,345,795 | 1,333,267 | 1,069,772 |
| Less: Accumulated depreciation | (1,043,014) | (785,400) | (912,750) | (742,718) |
| | 742,959 | 560,395 | 420,517 | 327,054 |
| Office Equipment under lease | 328,000 | 328,000 | 328,000 | 328,000 |
| Less: Accumulated depreciation | (328,000) | (328,000) | (328,000) | (328,000) |
| | – | – | – | – |
| LEASEHOLD IMPROVEMENTS | | | | |
| Leasehold Improvements at cost | 472,606 | 460,643 | 472,606 | 460,643 |
| Less: Accumulated Depreciation | (201,715) | (85,704) | (201,715) | (85,704) |
| | 270,891 | 374,939 | 270,891 | 374,939 |
| TOTAL | 1,368,407 | 1,176,179 | 898,869 | 807,507 |

Reconciliations

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

| | Plant and Equipment | Plant and Equipment Leased | Motor Vehicle | Office Equipment | Office Equipment Leased | Leasehold Improvements | Total |
|---|------------------------|----------------------------------|------------------|---------------------|-------------------------------|---------------------------|-----------|
| Consolidated | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Carrying amount at 1 July 2003 | 165,116 | 7,229 | 68,500 | 560,395 | – | 374,939 | 1,176,179 |
| Additions | 4,910 | 144,711 | 50,498 | 440,178 | – | 11,963 | 652,260 |
| Depreciation/amortisation expense (Note4(a)) | (56,306) | (2,330) | (27,771) | (257,614) | – | (116,011) | (460,032) |
| Carrying amount at 30 June 2004 | 113,720 | 149,610 | 91,227 | 742,959 | – | 270,891 | 1,368,407 |
| Parent | | | | | | | |
| Carrying amount at 1 July 2003 | 98,285 | 7,229 | – | 327,054 | – | 374,939 | 807,507 |
| Additions | 2,096 | 144,711 | – | 263,495 | – | 11,963 | 422,265 |
| Depreciation/amortisation expense (Note4(a)) | (42,530) | (2,330) | – | (170,032) | – | (116,011) | (330,903) |
| Carrying amount at 30 June 2004 | 57,851 | 149,610 | – | 420,517 | – | 270,891 | 898,869 |

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

| | Consolidated | | Parent entity | |
|--|--------------|-------------|---------------|-------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 13. NON-CURRENT ASSETS – INTANGIBLE ASSETS | | | | |
| Deferred Development expenditure at cost | – | 13,731,915 | – | 13,692,096 |
| Less: Accumulated amortisation | – | (5,436,397) | – | (5,397,055) |
| Less: Accelerated amortisation | – | (8,295,518) | – | (8,295,041) |
| | – | – | – | – |
| Patents, trademarks & licences at cost | – | 1,360,245 | – | 1,360,245 |
| Less: Accumulated amortisation | – | (398,001) | – | (398,001) |
| Less: Accelerated amortisation | – | (962,244) | – | (962,244) |
| | – | – | – | – |
| Neuroscan acquisition costs | – | – | – | 417,317 |
| Less: Accumulated amortisation | – | – | – | (46,380) |
| Less: Accelerated amortisation | – | – | – | (370,937) |
| | – | – | – | – |
| Intellectual property on acquisition at cost | – | 10,646,548 | – | 3,472,864 |
| Less: Accumulated amortisation | – | (2,482,849) | – | (508,354) |
| Less: Accelerated amortisation | – | (8,163,699) | – | (2,964,510) |
| | – | – | – | – |
| Goodwill on acquisition at cost | – | 508,068 | – | – |
| Less: Accumulated amortisation | – | (71,158) | – | – |
| Less: Accelerated amortisation | – | (436,910) | – | – |
| | – | – | – | – |
| TOTAL | – | – | – | – |

Research and development expenditure

At 30 June 2003 the Directors of Compumedics reassessed the carrying value of R&D costs capitalised at balance date.

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

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

Intellectual property acquired and goodwill

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

Provision for diminution of investment

Applying this analysis as for R&D expenditure, the parent entity provided in full against its investment in Compumedics Telemed Pty Ltd, resulting in a pre and post tax charge to the statement of financial performance of \$7.1m, in the previous financial year ended 30 June 2003.

| | Consolidated | | Parent entity | |
|--|------------------|------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 14. CURRENT LIABILITIES – PAYABLES | | | | |
| Trade creditors | 2,676,685 | 3,546,866 | 1,990,846 | 2,607,168 |
| Other payables | 1,937,318 | 1,572,565 | 660,054 | 719,027 |
| Payable to controlled entities | – | – | 175,772 | 240,559 |
| TOTAL | 4,614,003 | 5,119,431 | 2,826,672 | 3,566,754 |

Note: Other payables balance includes
Current Annual leave provision as follows:

| | | | | |
|----------------------------------|---------|---------|---------|---------|
| Annual Leave provision (note 29) | 491,471 | 541,072 | 368,225 | 343,567 |
|----------------------------------|---------|---------|---------|---------|

NOTE 15. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

SECURED

| | | | | |
|---------------------------|-----------|-----------|-----------|-----------|
| Bank loan | 1,400,000 | 1,876,466 | 1,400,000 | 1,876,466 |
| Bank finance facility | 144,711 | – | 144,711 | – |
| Lease liability (note 28) | – | 21,036 | – | 21,036 |
| | 1,544,711 | 1,897,502 | 1,544,711 | 1,897,502 |

UNSECURED

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Concessional loan | 339,360 | 339,360 | 339,360 | 339,360 |
| Neuroscan acquisition cost payable to the Marmon group | – | 2,492,118 | – | 2,492,118 |
| Payable to controlled entities | – | – | 48,798 | 48,798 |
| TOTAL | 1,884,071 | 4,728,980 | 1,932,869 | 4,777,778 |

The bank loan and finance facility are secured by a Mortgage Debenture which represents a fixed and floating charge over all present and future assets, undertakings (including goodwill) and unpaid/uncalled capital of the Company.

NOTE 16. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

| | | | | |
|------------------------|--------|--------|---|---|
| Provision for taxation | 55,246 | 52,400 | – | – |
|------------------------|--------|--------|---|---|

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

| | Consolidated | | Parent entity | |
|--|----------------|----------------|----------------|----------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 17. CURRENT LIABILITIES – PROVISIONS | | | | |
| Provisions – long service leave (note 29) | 10,478 | – | 10,478 | – |
| Provisions – warranties | 335,435 | 304,277 | 154,196 | 158,910 |
| TOTAL | 345,913 | 304,277 | 164,674 | 158,910 |

WARRANTIES

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

MOVEMENT IN PROVISIONS

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

| | Warranties – Consolidated | Warranties – Parent |
|--|---------------------------|---------------------|
| Carrying amount at start of year | 304,277 | 158,910 |
| Additional provisions recognised | 124,179 | 88,307 |
| Payments/other sacrifices of economic benefits | (93,021) | (93,021) |
| Carrying amount at end of year | 335,435 | 154,196 |

| | Consolidated | | Parent entity | |
|---|------------------|------------------|----------------|----------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 18. CURRENT LIABILITIES – OTHER | | | | |
| Revenue in advance | 1,282,140 | 1,216,630 | 484,051 | 430,008 |
| Loan payable | 47,766 | – | – | – |
| TOTAL | 1,329,906 | 1,216,630 | 484,051 | 430,008 |

NOTE 19. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

SECURED

| | | | | |
|---------------------------|-----------|--------|-----------|--------|
| Lease liability (note 28) | – | 21,789 | – | 21,789 |
| Bank loan | 1,952,505 | – | 1,952,506 | – |

UNSECURED

| | | | | |
|-------------------|------------------|----------------|------------------|----------------|
| Concessional loan | 169,954 | 486,068 | 169,954 | 486,068 |
| TOTAL | 2,122,459 | 507,857 | 2,122,459 | 507,857 |

The bank loan is secured by a Mortgage Debenture which represents a fixed and floating charge over all present and future assets, undertakings (including goodwill) and unpaid/uncalled capital of the Company.

BANK LOAN FACILITIES

| | | | | |
|------------------------|-----------|-----------|-----------|-----------|
| Total Facilities | 5,289,506 | 2,968,595 | 5,289,506 | 2,968,595 |
| Used at balance date | 3,982,529 | 2,356,420 | 3,982,529 | 2,356,420 |
| Unused at balance date | 1,306,977 | 612,175 | 1,306,977 | 612,175 |

| | Consolidated | | Parent entity | |
|--|--------------|------------|---------------|------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 20. NON-CURRENT LIABILITIES – PROVISIONS | | | | |
| Provisions – long service leave (note 29) | 197,632 | 157,609 | 197,632 | 157,609 |
| NOTE 21. NON-CURRENT LIABILITIES – OTHER | | | | |
| Revenue in advance | 14,881 | – | 14,881 | – |

| | Parent and Consolidated | | | |
|------------------------------------|-------------------------|----------------|------------|------------|
| | 2004 Number | 2003 Number | 2004 \$ | 2003 \$ |
| NOTE 22. CONTRIBUTED EQUITY | | | | |
| Issued and paid up capital | 140,000,000 | 140,000,000 | 29,020,201 | 29,147,006 |

(a) Movements in ordinary share capital

| Date | Details | Notes | Number of shares | Issue price \$ | \$ |
|------------|------------------------------|-------|------------------|----------------|------------|
| 30-06-2002 | Balance | | 140,000,000 | | 29,147,006 |
| | Nil movement in current year | | | | |
| 30-06-2003 | Balance | (b) | 140,000,000 | | 29,147,006 |
| | Less: GST payment on IPO | (c) | | | (126,805) |
| 30-06-2004 | Balance | | 140,000,000 | | 29,020,201 |

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the company in proportion to the number of and amounts paid on the shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote.

(c) GST payment on IPO

As part of a review conducted by the ATO, it was found that the input tax credits claimed were required to be repaid. The GST input tax credits associated with the initial public offer of ordinary shares in Compumedics Limited, that are not able to be claimed have been capitalised as part of Equity.

(d) Options

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

| | Consolidated | | Parent entity | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 23. RETAINED PROFITS | | | | |
| Retained profits / (accumulated losses) at the beginning of the financial year | (17,471,789) | 1,084,871 | (18,185,952) | 1,670,506 |
| Net profit / (loss) attributable to members of Compumedics Limited | 2,396,683 | (18,556,660) | 2,570,073 | (19,856,458) |
| Accumulated losses at the end of the financial year | (15,075,106) | (17,471,789) | (15,615,879) | (18,185,952) |

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 24. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the following table.

| | | Fixed interest maturing in: | | | | | |
|---------------------------------|-------|-----------------------------|-------------------|----------------------|----------------------|-------------------------|------------|
| | | Floating interest rate | 1 year or less | Over 1 to 5 years | More than 5 years | Non-interest bearing | Total |
| 2004 | Notes | \$ | \$ | \$ | \$ | \$ | \$ |
| FINANCIAL ASSETS | | | | | | | |
| Cash and deposits | 6 | 6,351,637 | – | – | – | – | 6,351,637 |
| Receivables | 7 | – | – | – | – | 10,239,362 | 10,239,362 |
| Total | | 6,351,637 | – | – | – | 10,239,362 | 16,590,999 |
| Weighted average interest rate: | | 5.10% | | | | | |
| FINANCIAL LIABILITIES | | | | | | | |
| Bank loans and facilities | 15,19 | – | 1,884,071 | 2,122,459 | – | – | 4,006,530 |
| Trade and other creditors | 14 | – | – | – | – | 4,614,003 | 4,614,003 |
| Other loans | 18 | – | 47,766 | – | – | – | 47,766 |
| Revenue in advance | 18,21 | – | – | – | – | 1,297,021 | 1,297,021 |
| Total | | – | 1,931,837 | 2,122,459 | – | 5,911,024 | 9,965,320 |
| Weighted average interest rate: | | – | 6.22% | 6.74% | – | – | – |
| Net financial assets | | 6,351,637 | (1,931,837) | (2,122,459) | – | 4,328,338 | 6,625,679 |
| | | Fixed interest maturing in: | | | | | |
| | | Floating interest rate | 1 year or less | Over 1 to 5 years | More than 5 years | Non-interest bearing | Total |
| 2003 | Notes | \$ | \$ | \$ | \$ | \$ | \$ |
| FINANCIAL ASSETS | | | | | | | |
| Cash and deposits | 6 | 5,366,091 | – | – | – | – | 5,366,091 |
| Receivables | 7 | – | – | – | – | 8,624,141 | 8,624,141 |
| Total | | 5,366,091 | – | – | – | 8,624,141 | 13,990,232 |
| Weighted average interest rate: | | 4.90% | | | | | |
| FINANCIAL LIABILITIES | | | | | | | |
| Bank loans and facilities | 15,19 | – | 4,728,980 | 507,857 | – | – | 5,236,837 |
| Trade and other creditors | 14 | – | – | – | – | 5,119,431 | 5,119,431 |
| Revenue in advance | 18,21 | – | – | – | – | 1,216,630 | 1,216,630 |
| Total | | – | 4,728,980 | 507,857 | – | 6,336,061 | 11,572,898 |
| Weighted average interest rate: | | – | 4.17% | 3.48% | – | – | – |
| Net financial assets | | 5,366,091 | (4,728,980) | (507,857) | – | 2,288,080 | 2,417,334 |

NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Net fair values

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

(c) Off-balance sheet derivative instruments

Compumedics Limited and certain of its controlled entities 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.

Forward exchange contracts

The USA operations sell products into the USA market in US dollars. At 30 June 2004 and 30 June 2003 there were no outstanding forward exchange contracts.

(d) Credit risk exposure

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

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

The following persons were Directors of Compumedics Ltd during the financial year:

Chairman and Executive director

David Burton, Chief Executive Officer

Non-executive directors

Koichiro Koike

John Dyson

Alan Anderson

Prof. Graham Mitchell

Executives (other than directors) with the greatest authority for strategic direction and management

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

| Name | Position | Employer |
|-----------------|--|-------------------------|
| Andrew Smith | Chief Operating Officer | Compumedics Limited |
| David Lawson | Chief Financial Officer and Company Secretary | Compumedics Limited |
| Warwick Freeman | Chief Technology Officer | Compumedics Limited |
| David Loiterton | General Manager, Sales and Marketing | Compumedics Limited |
| Stephen Sands | Chief Scientist | Compumedics USA Limited |
| Daniel Moore | Vice President (Sales & Marketing) USA (from 1 July 2003 – 7 April 2004) | Compumedics USA Limited |
| Jeff Kuznia | Vice President (Sales & Marketing) USA (from 8 April 2004) | Compumedics USA Limited |

All of the above persons, except as indicated, were also specified executives during the year ended 30 June 2003.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward 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 data, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2003. The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees.

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

Retirement allowances for directors

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

Executive pay

The executive pay and reward framework has four components:

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

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

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of directors and executives (continued)

Base pay

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

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

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

Benefits

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

Retirement benefits

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

Short-term incentives

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

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

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

For the year ended 30 June 2004, 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 senior executive team.

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

The STI target annual payment is reviewed annually.

Compumedics Employee Option Plan

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

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of directors and executives (continued)

Details of remuneration

Details of the remuneration of each director of Compumedics Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Compumedics Limited

| 2004 | | | | Post-employment | | Equity | |
|-----------------------|----------------------------|------------------|-----------------------------|-----------------|---------------------|---------|---------|
| Name | Primary | | | Super-annuation | Retirement benefits | Options | Total |
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | | | | |
| David Burton | 330,000 | — | — | — | — | — | 330,000 |
| Koichiro Koike | 75,965 | — | — | 6,837 | — | — | 82,802 |
| John Dyson | 35,000 | — | — | — | — | 5,500 | 40,500 |
| Prof. Graham Mitchell | 30,023 | — | — | 2,477 | — | — | 32,500 |
| Alan Anderson | 37,500 | — | — | — | — | — | 37,500 |
| Total | 508,488 | — | — | 9,314 | — | 5,500 | 523,302 |
| 2003 | | | | | | | |
| Total | 503,061 | — | — | 8,150 | — | 50,697 | 561,908 |

Specified executives of the consolidated entity

| 2004 | | | | Post-employment | | Equity | |
|---|----------------------------|------------------|-----------------------------|-----------------|---------------------|---------|-----------|
| Name | Primary | | | Super-annuation | Retirement benefits | Options | Total |
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | | | | |
| Warwick Freeman | 161,731 | — | 17,485 | 14,556 | — | — | 193,772 |
| David Lawson | 184,665 | — | — | 16,380 | — | — | 201,045 |
| Andrew Smith | 179,891 | — | — | 16,190 | — | — | 196,081 |
| David Loiterton | 140,308 | 10,000 | 15,000 | 13,476 | — | 7,500 | 186,284 |
| Jeff Kuznia | 172,205 | 9,895 | 10,150 | — | — | — | 192,250 |
| Stephen Sands | 255,182 | — | — | — | — | — | 255,182 |
| Daniel Moore (from 1/7/2003 – 7/04/2004) | 160,830 | — | 7,577 | — | — | — | 168,407 |
| Total | 1,254,812 | 19,895 | 50,212 | 60,602 | — | 7,500 | 1,393,021 |
| 2003 | | | | | | | |
| Total | 1,296,455 | 30,720 | 47,947 | 52,216 | — | 15,470 | 1,442,808 |

Total remuneration of directors and specified executives for the year ended 30 June 2003 is set out above. Information for individuals is not shown as this is the first financial report prepared since the issue of AASB 1046 *Directors and Executive Disclosures for Disclosing Entities*.

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Service agreements

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

David Burton, *Chief Executive Officer*

- Base salary, excluding superannuation, for the year ended 30 June 2004 of \$330,000, to be reviewed annually by the remuneration committee

Andrew Smith, *Chief Operating Officer*

- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of \$196,200, to be reviewed annually by the remuneration committee
- Review of last salary – 1 October 2003

David Lawson, *Chief Financial Officer / Company Secretary*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$198,380, to be reviewed annually by the remuneration committee
- Incentive Bonus of \$20,000 based on company profit targets after tax
- Review of last salary – 1 January 2004

Warwick Freeman, *Chief Technology Officer*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$169,758, to be reviewed annually by the remuneration committee
- Car allowance of \$17,156
- Review of last salary – 1 September 2003

David Loiterton, *General Manager Sales and Marketing*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$147,150, to be reviewed annually by the remuneration committee
- Car Allowance of \$15,000
- Bonus of \$30,000 based on Rest of World revenue and profit budget numbers
- Senior manager bonus of \$25,000 based on Group achieving budgeted revenue and profit targets
- Review of last salary – 1 July 2003

Stephen Sands, *Chief Scientist*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$178,500USD, to be reviewed annually by the remuneration committee
- Review of last salary – 1 January 2004

Daniel Moore, *VICE President Sales and Marketing, USA (from 1 July 2003 – 7 April 2004)*

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$112,500USD for period ended 7 April 2004, to be reviewed annually by the remuneration committee
- Review of last salary – 1 January 2004

Jeff Kuznia, *Product Manager (1 July 2003 – till 7 April 2004),*

VICE President Sales and Marketing, USA (from 8 April 2004 – 30 June 2004)

- Base salary inclusive of superannuation, for the year ended 30 June 2004 of \$120,458USD, to be reviewed annually by the remuneration committee
- Review of last salary – 1 April 2004

Equity instrument disclosures relating to directors and executives

Options provided as remuneration

Details of options over ordinary shares in the company provided as remuneration to any director of Compumedics Limited and any of the specified executives of the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary share of Compumedics Limited. Further information on options is set out in Note 29.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Equity instrument disclosures relating to directors and executives (continued)

Options provided as remuneration (continued)

| Directors | Options Granted | Exercise Price (\$) | Expiry Date | Price at date of Grant (\$) | Indicative value (\$) |
|---|--------------------|------------------------|----------------|--------------------------------|--------------------------|
| John Dyson, Audit Committee Chairman | 50,000 | 0.31 | 2009 | 0.31 | 5,500 |
| Other executives of Compumedics Limited | | | | | |
| David Loiterton, General Manager, Sales and Marketing | 50,000 | 0.43 | 2008 | 0.43 | 7,500 |

The assessed fair value at grant date of options granted to directors and specified executives is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable amount of the option, 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 model inputs for options granted during the year ended 30 June 2004 included:

- (a) options are granted for no consideration
- (b) exercise price: the share price on issue date
- (c) grant date: the date issued
- (d) expiry date: five years from the grant date
- (e) share price at grant date: as taken from ASX
- (f) expected price volatility of the company's shares: 30%
- (g) expected dividend yield: zero
- (h) risk-free interest rate: 4.75%

Option Holdings

The number of options held over ordinary shares in the company held during the financial year by each director of Compumedics Limited and each of the specified executives in the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at start of the year | Granted during the year | Exercised during the year | Retired during the year | Balance at end of the year | Vested and exercisable at end of the year |
|--|------------------------------------|-------------------------------|---------------------------------|-------------------------------|----------------------------------|---|
| Directors of Compumedics Limited | | | | | | |
| David Burton | 292,645 | — | — | — | 292,645 | 292,645 |
| Koichiro Koike | 660,000 | — | — | — | 660,000 | 330,000 |
| John Dyson | 166,000 | 50,000 | — | — | 216,000 | 133,000 |
| Prof Graham Mitchell | 66,000 | — | — | — | 66,000 | 33,000 |
| Alan Anderson | 86,000 | — | — | — | 86,000 | 53,000 |
| Specified executives of the consolidated entity | | | | | | |
| Warwick Freeman | 660,000 | — | — | — | 660,000 | 330,000 |
| David Lawson | 660,000 | — | — | — | 660,000 | 330,000 |
| Andrew Smith | 100,000 | — | — | — | 100,000 | 100,000 |
| David Loiterton | — | 50,000 | — | — | 50,000 | 50,000 |
| Jeff Kuznia | 110,000 | — | — | — | 110,000 | 55,000 |
| Stephen Sands | — | — | — | — | — | — |
| Daniel Moore (from 1/7/2003 – 7/04/2004) | 220,000 | — | — | (220,000) | — | — |

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Equity instrument disclosures relating to directors and executives (continued)

Share Holdings

The number of shares in the Company held during the financial year by each director of Compumedics Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year |
|--|------------------------------|---|-------------------------------|----------------------------|
| Directors of Compumedics Limited | | | | |
| <i>Ordinary Shares</i> | | | | |
| David Burton | 90,675,710 | – | (914,102)* | 89,761,608 |
| Koichiro Koike | – | – | – | – |
| John Dyson | 70,000 | – | 50,000** | 120,000 |
| Prof Graham Mitchell | – | – | – | – |
| Alan Anderson | 25,000 | – | – | 25,000 |
| Specified executives of the consolidated entity | | | | |
| <i>Ordinary Shares</i> | | | | |
| Warwick Freeman | 82,000 | – | – | 82,000 |
| David Lawson | 130,000 | – | 50,000** | 180,000 |
| Andrew Smith | – | – | – | – |
| David Loiterton | – | – | – | – |
| Jeff Kuznia | – | – | – | – |
| Stephen Sands | – | – | – | – |
| Daniel Moore (from 1/7/2003 – 7/04/2004) | – | – | – | – |

* The off market transactions carried out by Mr. David Burton on 15 July 2003 were a result of agreements made at the initial public offering of Compumedics Limited on 20 December 2000 to three long standing employees, in recognition of their loyalty and contribution to Compumedics at that time.

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

Loans to directors and executives

Details of loans made to directors of Compumedics Limited and the specified of the consolidated entity, including their personally-related entities, are set out below:

Aggregates for directors and specified executives

| 2004 Group | Balance at start of the year | Interest paid and payable for the year | loan received | Loan repaid | Balance at end of the year | Number in group at end of the year |
|---|------------------------------|--|---------------|-------------|----------------------------|------------------------------------|
| | \$ | \$ | \$ | \$ | \$ | |
| Directors of Compumedics Limited | – | 4,777 | 200,000 | – | 204,777 | 1 |
| Specified executives of the consolidated entity | – | – | – | – | – | – |

Individuals with loans over \$100,000 during the financial year

| 2004 Name | Balance at start of the year | Interest paid and payable for the year | loan received | Loan repaid | Balance at end of the year | Highest indebtedness during the year |
|--------------------------|------------------------------|--|---------------|-------------|----------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Director David Burton | – | 4,777 | 200,000 | – | 204,777 | 204,777 |

Loans outstanding at the end of the year represents a pre-payment of bonuses, anticipated to be recouped via the achievement of specific goals related to projects undertaken in Medical Innovations.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to directors or specified directors.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Other transactions with directors and specified executives

Directors of Compumedics Limited

Other transactions with Directors and Director-related entities are outlined in Note 30 – Related Parties.

| | Consolidated | | Parent entity | |
|--|----------------|----------------|----------------|----------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 26. REMUNERATION OF AUDITORS | | | | |
| During the year the following services were paid to the auditor of the parent entity, its related practices and non-related audit firms: | | | | |
| Audit Services | | | | |
| Audit or review of the financial reports for the entity or any entity in the consolidated entity | | | | |
| PricewaterhouseCoopers Australian Firm | 100,000 | 100,000 | 100,000 | 100,000 |
| Related Practices of PricewaterhouseCoopers Australian Firm | 25,000 | – | – | – |
| TOTAL | 125,000 | 100,000 | 100,000 | 100,000 |
| Taxation Services | | | | |
| PricewaterhouseCoopers Australian Firm | 21,350 | 11,460 | 21,350 | 11,460 |
| Related Practices of PricewaterhouseCoopers Australian Firm | 15,724 | 1,777 | – | – |
| TOTAL | 37,074 | 13,237 | 21,350 | 11,460 |

NOTE 27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2004 in respect of:

Claims

A claim for unspecified damages was lodged during the year against the company in relation to a dismissal for equal opportunity. The company has disclaimed liability and will be vigorously defending the claim upon investigation by the Equal Opportunity Commission. At 30 June 2004 it was not practical to estimate the potential effect of this claim.

Contingent assets

The parent entity and consolidated entity did not identify any contingent assets at 30 June 2004.

| | Consolidated | | Parent entity | |
|--|--------------|------------|---------------|------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| NOTE 28. COMMITMENTS FOR EXPENDITURE | | | | |
| OPERATING LEASES | | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | 759,409 | 760,273 | 390,110 | 437,000 |
| Later than one year but not later than five years | 1,412,225 | 2,280,464 | 546,250 | 983,250 |
| Commitments not recognised in the financial statements | 2,171,634 | 3,040,737 | 936,360 | 1,420,250 |
| FINANCE LEASES | | | | |
| Commitment in relation to finance leases are payable as follows: | | | | |
| Within one year | – | 23,550 | – | 23,550 |
| Later than one year but not later than five years | – | 23,783 | – | 23,783 |
| Minimum lease payments | – | 47,333 | – | 47,333 |
| Less: Future finance charges | – | (4,508) | – | (4,508) |
| Total | – | 42,825 | – | 42,825 |
| Representing lease liabilities | | | | |
| Current (note 15) | – | 21,036 | – | 21,036 |
| Non-Current (note 19) | – | 21,789 | – | 21,789 |
| Total | – | 42,825 | – | 42,825 |
| NOTE 29. EMPLOYEE ENTITLEMENTS | | | | |
| Current (note 14 and note 17) | 501,949 | 541,072 | 378,703 | 343,567 |
| Non-current (note 20) | 197,632 | 157,609 | 197,632 | 157,609 |
| Aggregate employee entitlement liability | 699,581 | 698,681 | 576,335 | 501,176 |
| Employee numbers | | | | |
| | Number | | Number | |
| Average number of employees during the financial year | 118 | 135 | 68 | 68 |

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 29. EMPLOYEE ENTITLEMENTS (CONTINUED)

Compumedics Limited Employee Option Plan

Consolidated and parent entity – 2004

| Grant date | Expiry date | Exercise Price | Balance at start of the year | Issued during the year | Exercised during the year | Lapsed during the year | Balance at end of the year |
|--------------|-------------|----------------|------------------------------|------------------------|---------------------------|------------------------|----------------------------|
| | | | Number | Number | Number | Number | Number |
| 21-Dec-00 | 21-Dec-05 | 0.50 | 5,023,000 | – | – | (360,000) | 4,663,000 |
| 1-Mar-01 | 1-Mar-06 | 0.95 | 10,000 | – | – | (10,000) | – |
| 4-Jun-01 | 4-Jun-06 | 0.89 | 10,000 | – | – | – | 10,000 |
| 1-Aug-01 | 1-Aug-06 | 0.60 | 10,000 | – | – | – | 10,000 |
| 30-Sep-01 | 30-Sep-06 | 0.56 | 22,500 | – | – | – | 22,500 |
| 31-Oct-01 | 31-Oct-06 | 0.71 | 70,423 | – | – | – | 70,423 |
| 1-Dec-01 | 1-Dec-06 | 0.65 | 10,000 | – | – | – | 10,000 |
| 31-Dec-01 | 31-Dec-06 | 0.84 | 22,500 | – | – | – | 22,500 |
| 31-Mar-02 | 6-Mar-07 | 0.59 | 20,000 | – | – | – | 22,500 |
| 6-Mar-02 | 31-Mar-07 | 0.55 | 22,500 | – | – | – | 20,000 |
| 4-Jun-02 | 4-Jun-07 | 0.41 | 22,500 | – | – | – | 22,500 |
| 20-Dec-02 | 20-Dec-07 | 0.01 | 222,222 | – | – | – | 222,222 |
| 8-Sep-03 | 8-Sep-08 | 0.43 | – | 50,000 | – | – | 50,000 |
| 11-Mar-04 | 11-Apr-09 | 0.31 | – | 50,000 | – | – | 50,000 |
| Total | | | 5,465,645 | 100,000 | – | (370,000) | 5,195,645 |

Consolidated and parent entity – 2003

| Grant date | Expiry date | Exercise Price | Balance at start of the year | Issued during the year | Exercised during the year | Lapsed during the year | Balance at end of the year |
|--------------|-------------|----------------|------------------------------|------------------------|---------------------------|------------------------|----------------------------|
| | | | Number | Number | Number | Number | Number |
| 21-Dec-00 | 21-Dec-05 | 0.50 | 5,188,000 | – | – | (165,000) | 5,023,000 |
| 1-Mar-01 | 1-Mar-06 | 0.95 | 10,000 | – | – | – | 10,000 |
| 4-Jun-01 | 4-Jun-06 | 0.89 | 10,000 | – | – | – | 10,000 |
| 1-Aug-01 | 1-Aug-06 | 0.60 | 10,000 | – | – | – | 10,000 |
| 30-Sep-01 | 30-Sep-06 | 0.56 | 22,500 | – | – | – | 22,500 |
| 31-Oct-01 | 31-Oct-06 | 0.71 | 70,423 | – | – | – | 70,423 |
| 1-Dec-01 | 1-Dec-06 | 0.65 | 10,000 | – | – | – | 10,000 |
| 31-Dec-01 | 31-Dec-06 | 0.84 | 22,500 | – | – | – | 22,500 |
| 31-Mar-02 | 6-Mar-07 | 0.59 | 22,500 | – | – | – | 22,500 |
| 6-Mar-02 | 31-Mar-07 | 0.55 | 20,000 | – | – | – | 20,000 |
| 4-Jun-02 | 4-Jun-07 | 0.41 | 22,500 | – | – | – | 22,500 |
| 20-Dec-02 | 20-Dec-07 | 0.01 | – | 222,222 | – | – | 222,222 |
| Total | | | 5,408,423 | 222,222 | – | (165,000) | 5,465,645 |

Options under the plan are granted for no consideration. Options are granted for a five year period. Options under the plan carry no dividend or voting rights.

NOTE 30. RELATED PARTIES

Directors and specified executives

Disclosures relating to directors and specified executives are set out in Note 25.

Wholly-owned group

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

Transactions between Compumedics Limited and other entities in the wholly owned group during the years ended 30 June 2004 and 2003 consisted of:

- (a) Loans advanced by Compumedics Limited
- (b) Loans repaid to Compumedics Limited
- (c) Sales between Compumedics Limited and Compumedics USA Ltd are at a cost that is representative of a third party distribution agreement
- (d) Compumedics Singapore Pte Ltd and Compumedics Germany GmbH charged commissions, at a mark up of 5% of running costs of those entities.
- (e) Recharge of research and developments spend in Compumedics USA Ltd to Compumedics Limited at cost.

Other transactions with Directors and Director-related entities

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

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

| | Consolidated | | Parent entity | |
|--|--------------|------------|---------------|------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Aggregate amounts receivable from entities in the wholly-owned group at balance date: | | | | |
| Non-current receivables | | | 5,661,721 | 5,123,381 |
| Aggregate amounts of each of the above types of other transactions with Directors and their Director-related entities: | | | | |
| Legal fees | 476,624 | 459,970 | 374,403 | 459,970 |
| Aggregate amounts receivable from Directors and their Director-related entities: | | | | |
| Current receivables | 204,777 | — | 204,777 | — |
| Current payables | 146,845 | 191,878 | 146,845 | 191,878 |

Controlling entities

The ultimate parent entity in the wholly-owned group is Compumedics Limited. Ownership interests in the controlled entities are set out in note 31.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 31. INVESTMENTS IN CONTROLLED ENTITIES

| Name of entity | Country of incorporation | Class of shares | Equity holding | | Cost of parent entity's investment | |
|---|--------------------------|-----------------|----------------|--------|------------------------------------|----------------|
| | | | 2004 % | 2003 % | 2004 \$ | 2003 \$ |
| Compumedics Telemed Pty Ltd. | Australia | Ordinary | 100 | 100 | 7,083,052 | 7,083,052 |
| Compumedics Neuro Science Pty Ltd. | Australia | Ordinary | 100 | 100 | 2 | 2 |
| Compumedics Cardiology Pty Ltd. | Australia | Ordinary | 100 | 100 | 2 | 2 |
| Compumedics USA Inc. | USA | Ordinary | 100 | 100 | – | – |
| Compumedics Singapore Pte Ltd. | Singapore | Ordinary | 100 | 100 | 106,872 | 106,872 |
| Compumedics USA Ltd. (formerly Neuroscan Ltd.) | USA | Ordinary | 100 | 100 | 199 | 199 |
| Compumedics Germany GmbH. | Germany | Ordinary | 100 | 100 | 41,213 | 41,213 |
| | | | | | 7,231,340 | 7,231,340 |
| Less provision for diminution | | | | | (7,083,050) | (7,083,050) |
| TOTAL | | | | | 148,290 | 148,290 |

Acquisition of controlled entities

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

On 23rd April 2002, Compumedics acquired the trade and assets of Neuroscan Ltd. Details of the acquisition are as follows:

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

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

During 2004, the outstanding amount payable to Marmon Group for the acquisition of Neuroscan was paid in full for \$2,292,930 (US\$1,600,000) due to exchange movements.

NOTE 32. EVENTS OCCURRING AFTER REPORTING DATE

On 1 September 2004 Compumedics Limited, through its 100% owned subsidiary Compumedics Germany GmbH, acquired the business of DWL Elektronische Systems GmbH for total consideration of EUR1.5m. The purchase price for the acquisition was fully funded by new facilities provided by the ANZ Bank.

In addition, the ANZ has provided a further EUR1.5m working capital facility for use by Compumedics Germany GmbH.

Compumedics, for its EUR1.5m purchase price, acquired 30 staff, inventory and fixed assets from DWL Elektronische Systems GmbH.

NOTE 33. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | Consolidated | | Parent entity | |
|--|------------------|------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | 2004 \$ | 2003 \$ |
| Profit/ (Loss) from ordinary activities after income tax | 2,396,683 | (18,556,660) | 2,570,073 | (19,856,458) |
| Depreciation and Amortisation | 460,032 | 20,914,306 | 330,903 | 14,852,503 |
| Write-down of investment | – | – | – | 7,083,050 |
| Exchange Gains on Loan payables | (383,264) | – | (383,264) | – |
| Doubtful Debts | (234,987) | (68,924) | 53,366 | (689,443) |
| Gain on disposal of non-current assets | (5,500) | – | (5,500) | – |
| CHANGE IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS FROM PURCHASE OF CONTROLLED ENTITY | | | | |
| Decrease (Increase) in trade and other debtors | (1,380,234) | (268,900) | (1,040,422) | 832,455 |
| Decrease (Increase) in inventories | 1,935,032 | 103,639 | 1,094,853 | 1,161,052 |
| Decrease (Increase) in income tax receivables | 77,975 | – | 77,975 | – |
| Decrease (Increase) in other operating assets | 33,182 | (190,630) | (13,499) | 130,602 |
| (Decrease) Increase in trade creditors | (505,428) | 1,529,154 | (740,082) | 330,735 |
| (Decrease) Increase in other operating liabilities | 151,285 | (377,611) | 92,050 | (1,187,734) |
| (Decrease) Increase in provision for income taxes payable | 2,846 | (177,907) | – | – |
| (Decrease) Increase in provision for deferred income tax | – | (253,299) | – | (253,299) |
| (Decrease) Increase in other provisions | 81,659 | 302,540 | 45,787 | (46,174) |
| Net Cash Inflow / (Outflow) from Operating Activities | 2,629,281 | 2,955,708 | 2,082,240 | 2,357,289 |

NOTE 34. EARNING PER SHARE

| | Consolidated | |
|--|---------------|---------------|
| | 2004 Cents | 2003 Cents |
| Basic earnings per share | 1.7 | (13.3) |
| Diluted earnings per share | 1.7 | (13.3) |
| Basic earnings per share based on earnings before interest, tax, depreciation and amortisation | 2.1 | 1.4 |
| Diluted earnings per share based on earnings before interest, tax, depreciation and amortisation | 2.1 | 1.4 |

| | Consolidated | |
|---|----------------|----------------|
| | 2004 Number | 2003 Number |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share. | 140,000,000 | 140,000,000 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share based on earnings before interest, tax, depreciation and amortisation. | 140,215,767 | 140,073,459 |

Reconciliation of earnings used in calculating earnings per share

The numerator used in calculation of both Basic EPS and Diluted EPS is a profit of 2,396,683 and there are no reconciling items to the loss from ordinary activities after income tax expense.

Reconciliation of earnings used in calculating alternative earnings per share

| | Consolidated | |
|---|--------------|--------------|
| | 2004 \$ | 2003 \$ |
| Profit / (Loss) from ordinary activities after income tax expense | 2,396,683 | (18,556,660) |
| Amortisation of intellectual property | – | 2,503,457 |
| Accelerated amortisation of intellectual property | – | 17,858,371 |
| Depreciation | 460,032 | 552,478 |
| Borrowings expense | 267,888 | 187,123 |
| Interest revenue | (195,818) | (234,017) |
| Tax expense (benefits) | 12,373 | (408,106) |
| | 2,941,158 | 1,902,646 |

Options

Options that have been granted are considered to be potential ordinary shares. The effect of potential ordinary shares with an exercise price below the average market price for the year of 34 cents have been included in the calculation of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Detail of options are set out in Note 29.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2004

The Directors declare that the financial statements and notes set out on pages 38 to 70:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



D Burton

Director

Melbourne

10 September 2004

Independent Audit Report

TO THE MEMBERS OF COMPUMEDICS LIMITED

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COMPUMEDICS LIMITED

AUDIT OPINION

In our opinion, the financial report of Compumedics Limited

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Compumedics Limited and the Compumedics Group (defined below) as at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Compumedics Limited ("the company") and the Compumedics Group ("the consolidated entity"), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

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

Independence

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

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PricewaterhouseCoopers

PricewaterhouseCoopers

S. C. Bannatyne

S. C. Bannatyne
Partner

Melbourne
10 September 2004

Shareholders' Information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is as at 26th August, 2004.

SHAREHOLDINGS

Substantial Shareholders

| Name | Number of ordinary shares held | % |
|--|--------------------------------|-------------|
| D & DJ Burton Holdings Pty Ltd and associated entities | 89,761,608 | 64.1 |
| Teijin Limited | 8,293,698 | 5.9 |
| Total | | 70.0 |

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

Distribution of Shareholders

| Category | Number of shareholders |
|------------------|------------------------|
| 1 – 1,000 | 122 |
| 1,001 – 5,000 | 634 |
| 5,001 – 10,000 | 430 |
| 10,001 – 100,000 | 485 |
| 100,001 – over | 58 |
| Total | 1,729 |

170 shareholders hold less than a marketable parcel.

Voting rights

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

| Unquoted equity securities | Number of issue | Number of holders |
|--|-----------------|-------------------|
| Options issued under the Compumedics Employee Share Option Plan to take up ordinary shares | 5,195,645 | 54 |

Shareholders' Information

TWENTY LARGEST SHAREHOLDERS

| Name | Number of ordinary shares held | % |
|--|--------------------------------|------|
| D & DJ Burton Holdings Pty Ltd | 87,761,608 | 62.7 |
| Teijin Limited | 8,293,698 | 5.9 |
| Sandhurst Trustees Ltd | 3,199,754 | 2.3 |
| AMP Life Limited | 2,678,413 | 1.9 |
| Electro Molecular Pty Ltd | 2,000,000 | 1.4 |
| Mr John Steven Lundgren | 1,009,500 | 0.7 |
| Diversified United Investment | 1,000,000 | 0.7 |
| Southam Investments 2003 Pty Ltd | 852,000 | 0.6 |
| Mr Graeme Edmund Moir | 781,000 | 0.6 |
| Australian United Investment Company Limited | 750,000 | 0.5 |
| Graeme Moir Holdings Pty Ltd | 710,000 | 0.5 |
| Wigram Trading Pty Limited | 560,300 | 0.4 |
| Mrs Joan Elaine Steel | 510,000 | 0.4 |
| Mr Paul Henry Golding | 500,000 | 0.4 |
| Summit Twenty-Five Pty Ltd | 500,000 | 0.4 |
| Mr Lance Peter Thomas | 419,801 | 0.3 |
| Mr Ken Whitton | 415,801 | 0.3 |
| Hawkins & Birthwright Limited | 376,400 | 0.3 |
| Blackwood Amber Pty Limited | 372,000 | 0.3 |
| Dr Nick Samaras | 366,208 | 0.3 |

The 20 largest shareholders hold 80.9% of the ordinary shares of the Company

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

Glossary of Defined Terms

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

Glossary of Medical Terms

| | |
|-------------------|---|
| Anaesthesia | State of insensibility. |
| Apnoea | Cessation of breathing. |
| Cardiac | Heart stimulant or cordial. |
| CE | Conformite European. |
| CHF | Congestive Heart Failure (ineffective pumping of the heart leading to accumulation of fluid in the lungs). |
| CPAP | Continuous Positive Airway Pressure. |
| ECG | Electrocardiogram (recording of electrical activity of the heart). |
| EEG | Electroencephalogram (testing of electrical activity of the brain). |
| EMG | Electromyogram (measures muscle response to nerve stimulation). |
| EP | Evoked potentials (the electrical response of the central nervous system produced by an external stimulus). |
| FDA | Food & Drug Administration (USA). |
| Neurological | Investigation of pains in the nerves. |
| NIPPV | Non-Invasive Positive Pressure Ventilator. |
| NREM | Non-Rapid Eye Movement. |
| OSAS | Obstructive Sleep Apnoea Syndrome. |
| Polysomnography | Simultaneous and continuous monitoring of relevant normal and abnormal physiological activity during sleep. |
| PSG | Polysomnography (testing of behaviour disturbance during sleep). |
| REM | Rapid Eye Movement. |
| Respiratory | Process of breathing. |
| SaO ₂ | Blood Oxygen Saturation Level. |
| SHHS | Sleep Health Heart Study. |
| TcCO ₂ | Transcutaneous Carbon Dioxide Level. |
| Thoracic | Pertaining to or affecting the chest. |
| Toxaemia | Abnormal condition in pregnancy with hypertension and edema. |

Corporate Directory

BOARD OF DIRECTORS

Mr David Burton

Mr Koichiro Koike

Mr John Dyson

Professor Graham Mitchell

Mr Alan Anderson

Company Secretary

Mr David Lawson

EXECUTIVE TEAM

Executive Chairman, CEO

Mr David Burton

Chief Operating Officer

Mr Andrew Smith

Chief Technology Officer

Mr Warwick Freeman

Chief Financial Officer

Mr David Lawson

Vice President American Sales and Global Marketing

Mr Jeff Kuznia

General Manager Sales & Marketing, AsiaPacific and Europe

Mr David Loiterton

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

AUDITOR

PricewaterhouseCoopers
Chartered Accountants
Level 14 333 Collins Street
Melbourne VIC 3000

SHARE REGISTERS

ASX Perpetual Registrars Limited
Level 4
333 Collins Street
Melbourne VIC 3000
Phone: 1300 554 474

SOLICITORS

Freehills
Level 48
101 Collins Street
Melbourne VIC 3000

BANKERS

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

STOCK EXCHANGE LISTINGS

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