SHELL
VILLAGES AND RESORTS LIMITED

22nd December 2008

Company Announcements Office
Australian Stock Exchange Limited
SYDNEY NSW 2000

Dear Shareholder

Please find attached Expert Opinion Report which is to be read in conjunction with the Notice of Meeting announced on Wednesday for the Annual General Meeting to be held on the 15th January 2009.

Lynn Thompson

COMPANY SECRETARY

Offices

Ayr
Brisbane
Cairns
Home Hill
Innisfail
Townsville
Tully

Report of Michael Joseph McDonald of Moore Stephens (Queensland) Ltd

dated 18 November 2008

to

the Directors of
Shell Villages & Resorts Limited ACN 009 161 522

to

Provide an Expert Opinion Report
Required in accordance with Rule 10.10.2
of the ASX Listing Rules

Relating to the Disposal of
All of the Issued Shares
of Heart Monitors Pty Ltd ACN 080 886 031
and
All of the Ordinary Shares held by Shell Villages and Resorts Limited in the Capital of Medpri Limited, Wellness Monitoring Inc, Medical Monitors (UK) Limited, E-Medicine Services Limited and Care Medical Limited

to

Icardia Healthcare Pty Ltd ACN 001 869 843
on 23 August 2007

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Accountant's Disclaimer

The contents of this report and the opinion expressed herein are not to be used for any purpose, other than that stated in ***'the Transaction'*** Section of the report hereof.

Accordingly, they are not to be otherwise construed as a recommendation made or opinion given to any party with respect to an acquisition or disposal of, either by way of gift, sale or other dealing in an interest or interests in the entity or assets of the entity that is the subject of the report.

Any recommendation or opinion sought other than that expressed herein in respect of such dealings should be obtained from a Proper Authority Holder under the Financial Services Reform Act 2001

Michael J McDonald
Principal, Forensic Accounting
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The Transaction

On 23 August 2007, Shell Villages & Resorts Ltd ("Shell" or "the Company") (previously Medical Monitors Limited) entered into a Share Sale Agreement ("the Agreement") with Icardia Healthcare Pty Ltd ("Icardia"), to dispose of the following ("the Transaction");

1. 10,359 ordinary shares in Heart Monitors Pty Ltd ("Heart Monitors"), which represented all of the issued share capital of Heart Monitors; and

2. All of the issued ordinary shares held by Shell in the following entities;

    a. Medpri Limited;
    b. Wellness Monitoring Inc;
    c. Medical Monitors (UK) Limited;
    d. E-Medicine Services Limited; and
    e. Care Medical Limited.

(collectively referred to as the "Associated Medical Entities")

The total consideration for the Transaction was an amount of **$2,511,723.46** ***(refer Appendix 3, Page 5)***, which was satisfied by way of cancellation of outstanding loans, including accumulated interest and charges payable to Dr A & R Shell or his associated entities by Shell ***(refer Appendix 3, Page 10)***.

At the time of the Transaction, Icardia was an entity controlled by Dr Allan Shell ("Dr Shell") who had been a Director of Shell in the six (6) months prior to the date of the Transaction. Dr Shell resigned as a director of Shell on or about 1 May 2007.

Prior to the Transaction, Heart Monitors was a wholly owned subsidiary of Shell and, as a result of the Transaction, Icardia acquired 100% of the Issued Shares of Heart Monitors.

Given the equity interest of Heart Monitors in the Company's accounts for the financial year ended 30 June 2007, the Transaction was considered a sale of a 'substantial asset' for the purposes of the Australian Stock Exchange ("ASX") Listing Rule 10.2. Accordingly, the Transaction required the approval of Shell's ordinary shareholders.

The Transaction was completed in October 2007 and an announcement was made to the ASX on 24 October 2007 regarding completion of this Transaction, however, shareholder approval was not obtained for the Transaction prior to completion.

ASX Listing Rule 10.9 requires that an entity must take corrective action if the ASX requires it to do so. The corrective action, at the option of the entity, is either of the following;

a. Cancelling the Transaction (or arranging for its cancellation);

b. Seeking the approval of holders of ordinary securities to the transaction. If approval is not obtained, the entity must cancel the transaction (or arrange for its cancellation).

As shareholder approval was not obtained for the Transaction prior to completion pursuant to ASX Listing Rule 10.1, the ASX has requested that the Company take corrective action under ASX Listing Rule 10.9 and to this end the Company has elected to seek approval of holders of ordinary securities of the Company to the Transaction.

Therefore, in accordance with the requirements of Para 10.9.2 of Chapter 10 of the ASX Listing Rules – "*Transactions with persons in a position of influence*", the Company is "*seeking the approval of holders of ordinary securities to the transaction.*"

In doing so, the Notice of Meeting under this rule must include each of the following:

10.10.1 *A voting exclusion statement.*

10.10.2 *A report on the transaction from an independent expert. The report must state whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded. Unless the opinion is that the transaction is fair and reasonable, the opinion must be displayed prominently in the notice of meeting and on the covering page of any accompanying documents.*

1. Expert's Opinion

From the information provided, it is my opinion, that the Transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded, for the following reasons:

1.1. The Balance sheet for Heart Monitors as at 30 June 2007 discloses net assets of $2,460,405.

1.2. I have undertaken a valuation of Heart Monitors as at 30 June 2007 which shows a ***deficiency*** in Net Assets of **($435,188)**.

1.3. In addition, from the information provided, the Associated Medical Entities have the following Net Asset positions (deficiency):

Entity	Net Asset Position (Deficiency)
Medpri Limited	$Nil
Wellness Monitoring Inc	($1,555,908)
Medical Monitors (UK) Limited	($120,736)
E-Medicine Services Limited	($201,433)
Care Medical Limited	$Nil

1.4. The Annual Financial Report for Shell Villages and Resorts Limited and Controlled Entities for the financial year ended 30 June 2007 discloses an amortised and impairment tested written down value for intellectual property of $2,972,406, which represents the intellectual property held in Heart Monitors.

1.5. Therefore, in the alternative event that Heart Monitors had been able to continue in business and thereby realise the full potential of the value of the intellectual property, I am of the opinion that the Annual Financial Report value of $2,972,406 would have been applicable.

1.6. In that event, the value of Heart Monitors would equate to the value of its Net Assets of $2,460,405, which is $51,327.46 ($2,511,732.46 - $2,460,405) less than the consideration for the Transaction.

1.7. Therefore, I am of the opinion that the consideration in relation to the Transaction is both fair and reasonable to holders of the entity's ordinary securities.

2. The Valuation Report ("my Valuation")

I have set out in ***Schedule* 1**, my Valuation of the shares disposed of in the Transaction, this shows:

Details	Value of Net Equity (Deficiency)	Total Value	Number of Shares	Value per Share
Heart Monitors Pty Ltd	**($435,188)**	**$Nil**	**10,359**	**$Nil**
Medpri Limited	**($0)**	**$Nil**	**Unknown**	**$Nil**
Wellness Monitoring Inc	**($1,555,908)**	**$Nil**	**Unknown**	**$Nil**
Medical Monitors (UK) Limited	**($120,735)**	**$Nil**	**Unknown**	**$Nil**
E-Medicine Services Limited	**($201,433)**	**$Nil**	**Unknown**	**$Nil**
Care Medical Limited	**($0)**	**$Nil**	**Unknown**	**$Nil**

3. Qualifications and Experience

I have included, as ***Appendix 1***, details of my Qualifications and Experience.

I have also had assistance from Mr Steven Ponsonby in the preparation of this report. I have included as ***Appendix 1, Page 2,*** details of Steven's Qualifications and Experience.

I have also had assistance from Mr Robert Leavy B.Com, FCPA. Robert previously acted as a Senior Consultant in Forensic Accounting to Moore Stephens (Queensland) Ltd and has had over 38 years experience, as a qualified Accountant, which includes over 11 years of specialising in Forensic Accounting.

However, the quantifications derived and opinions expressed herein are solely my own.

4. Information Provided

4.1. I have set out in ***Appendix 2***, details of the information on which I have relied, in the preparation of my Valuation.

5. Historical Background to the Valuation of Heart Monitors

5.1. Medical Monitors Limited ("Medical Monitors") was registered with the Australian Securities and Investments Commission, on 7 January 1986.

5.2. I am advised by management that, on or around 27 August 2007; Medical Monitors changed its name to Shell Villages and Resorts Limited.

5.3. Shell is a publicly listed company on the ASX under the ASX code of "SVC".

5.4. A review of Shell's website identifies that "*Shell Villages and Resorts is dedicated to developing a network of Secure Housing Estate Lifestyle Living facilities around Australia. Our aim is to bring medical technology and secure home living together. We are achieving this by developing fully integrated lifestyle estates where quality homes sit within a resort like environment.*

Shell Villages and Resorts are creating holistic retirement environments with a focus on both quality of life through secure resort style villages, combined with a commitment to improving the health of those living within our resorts.

5.5. An announcement by Shell to the ASX on 13 September 2007 disclosed that Shell had written off all non-performing and loss making medical assets and businesses for the end of the 2006/07 financial year with the sale of Heart Monitors yet to be finalised. Further, Shell's core business was now in property with a focus on the over 50's gated communities.

5.6. Heart Monitors was registered with the Australian Securities and Investments Commission on 27 November 1997, the sole member being Medical Monitors. Therefore, Heart Monitors was a wholly owned subsidiary of Medical Monitors.

5.7. Heart Monitors provides vital signs monitoring services, using "transtelephonic" (by telephone) recorders and proprietory application software.

5.8. Company searches undertaken on Heart Monitors and Icardia on 19 March 2008, identified the following;

5.8.1. The Issued Shares of Heart Monitors comprised the following:

Share Class	Number Of Shares	Fully Paid
Ordinary Shares	10,359	Yes

5.8.2. Icardia holds all the Issued Shares of Heart Monitors;

5.8.3. Heart Monitors is under external administration, i.e. a Liquidator has been appointed, pursuant to a Creditors Voluntary Winding up; and

5.8.4. Dr Allan Shell holds all the Issued Shares of Icardia.

6. Valuation Method Adopted

6.1. Whilst Heart Monitors is currently under external administration, my Valuation has regarded the Business as being a "going concern" which, would have been expected to continue as such for an indeterminable future period.

6.2. However, I have not been provided with, nor do I have available to me, an appropriate prediction of the future net cash flows that the Business would have been expected to generate.

6.3. I have therefore valued it by the Capitalisation of Future Maintainable Profits method, using its past results, as a basis for establishing those profits. The Future Maintainable Profits figure used will be on a Before Interest and Tax ("EBIT") basis.

6.4. As the value of the Business is to be established irrespective of long-term debt, for a Capitalisation Rate, I will use an appropriate Cost of Equity.

7. Establishing the Future Maintainable Profits of the Business

7.1. I have been provided with the following financial information for Heart Monitors to assist me with my Valuation;

7.1.1. Audited Annual Financial Report for the Company's consolidated group for the year ended 30 June 2007; and

7.1.2. The Company's consolidation spreadsheet outlining details of each entity that forms part of the Company's consolidated group.

7.2. I have also been provided with the following financial information obtained from the MYOB Management Accounting package of Heart Monitors;

7.2.1. Profit and Loss Statements for the financial years ended 30 June 2004 to 2007 (inclusive);

7.2.2. Balance Sheet as at 30 June 2007;

7.2.3. Profit and Loss Statement for the period 1 July 2007 to 17 September 2007; and

7.2.4. Balance Sheet as at 17 September 2007.

7.3. I have undertaken a review of the MYOB Profit and Loss Statement for the period 1 July 2007 to 17 September 2007 and the Balance Sheet as at 17 September 2007 and am of the opinion that there hasn't been any significant change in operations since 30 June 2007.

7.4. Accordingly, I have undertaken my Valuation utilising the financial statements provided to me for the financial year ended 30 June 2007.

7.5. I have undertaken a review of the Profit and Loss Statement and the Balance Sheet for Heart Monitors for the financial year ended 30 June 2007. The figures disclosed agree to the Company's consolidated spreadsheet provided to me, which in turn agrees to the Company's Annual Financial Report for the year ended 30 June 2007.

7.6. Utilising the financial information provided, I have set out together the Detailed Profit and Loss Statements for the 30 June 2004 to 2007 (inclusive) financial years, in ***Appendix 4, Pages 1 and 2***.

7.7. ***Appendix 4, Page 2*** shows Net Profits / (Losses) Before Income Tax for each year as follows:

2004	($678,321)
2005	($597,280)
2006	($260,721)
2007	($1,158,562)

7.8. However, in order to arrive at the Future Maintainable Profits, on an Earnings Before Interest and Tax ("EBIT") basis, certain adjustments to these results must be made.

7.9. These include:

7.9.1. The elimination of Interest expense and any costs of obtaining borrowed funds and any ongoing charges associated therewith.

7.9.2. The elimination of any items of income or expenditure that do not arise, on a regular basis, in the conduct of the trading operations of the Business ("Abnormal Items").

7.9.3. The elimination of any items of income or expenditure that, as a result of changes in the way the Business is operated will not be re-occurring in the future (also "Abnormal Items").

7.9.4. Where the use of property, plant or equipment has been provided to the Business by "related parties", where necessary, adjusting any rental expense, in relation thereto, to commercially realistic, arms-length rates.

7.9.5. Adjusting, where necessary, any remuneration paid or due to "related parties" to the amounts that would be paid to non-related employees, performing the same duties, on a commercially realistic, arms-length basis.

7.10. I have set out details of those adjustments in ***Appendix 5, Page 1*** and now provide explanations as to the reasons for them. The adjustments will be detailed in the same order in which the relevant Income or Expenditure items appear in the Profit and Loss Statements.

8. Profit & Loss Adjustments

8.1. **Interest Received.** Interest income is derived from investment of the cash funds of the Business that are surplus to immediate use. Therefore, in determining the net income resulting from trading activities, I have deducted out all amounts of Interest Received.

8.2. **Amortisation of Intellectual Property.** An Amortisation Expense has been included in the Profit & Loss Statements for the years ended 30 June 2004, 2005 and 2006. This expense relates to the Intellectual Property of Heart Monitors and, as such, represents an amortisation of an Intangible Asset.

8.3. It is therefore not an expense of operating the Business in the past, nor will it be an operating expense of the future. Consequently, I have added it back for each of those three years.

8.4. **Consultancy Fees**. The Profit & Loss Statements show an irregular, additional Consultancy Fees expense of **$1,818** in 2003/04 and **$22,138** in 2006/07. I have therefore added those amounts back, as representing an Abnormal Expense.

8.5. **Impairment of Intellectual Property**. The Detailed Profit & Loss Statement of the Business for 2006/07 includes an expense of **$1,178,314** for Impairment of Intellectual Property. I understand that this expense has arisen from the Impairment Testing requirements of the Australian International Financial Reporting Standards that would have first applied to Heart Monitor's Financial Reports for the year ended 30 June 2007.

8.6. **Interest Expense**. In the process of deriving the EBIT of the Business, I have added back the Interest expense for each year.

8.7. **Interest Component of Finance Lease Rentals**. I have added back the Interest Component of Finance Lease Rentals, which I have estimated to comprise approximately 20% of the total Lease Rentals paid.

8.8. **Legal Fees.** The Business incurred Legal Fees of **$1,917** in 2006/07. I have therefore added that amount back, as being an Abnormal Expense.

8.9. **Removal Costs**. The Profit & Loss Statements show Removal Costs of **$358** in 2006/07. I have therefore added back that amount, as also representing an Abnormal Expense.

8.10. **Provision for Obsolete Stock**. The Profit & Loss Statements show a Provision for Obsolete Stock of **$38,192** in 2004/05, but no other expense in this regard in the other years. I have therefore added that expense back, as being an Abnormal Item.

8.11. Thus, ***Appendix 5, Page 1*** shows Adjusted Operating Profits / (Losses) from Ordinary Activities, before Interest and Tax (EBIT's), for the four financial years, as follows:

2003/04	($30,950)
2004/05	$9,394
2005/06	$42,358
2006/07	$44,489

8.12. I have then further adjusted the Operating Profits or Losses of each year to reflect movements in the CPI (Brisbane) since the March Quarter prior to the beginning of those years, as compared to the CPI (Brisbane) for the March Quarter, 2006, which is the quarter just prior to the commencement of the latest year of my calculations, 2006/2007.[1] The respective CPI values are set out in ***Appendix 5, Page 2***.

8.13. This is on the basis that, where business operators adopt a practice of annually adjusting their prices in accordance with movements in the CPI, the most likely time for this to occur would be around the financial year change over, i.e., June or July. At that time, the latest CPI figures available would be for the previous March quarter. Consequently, I have used the 2006 March quarter's CPI, as compared to the March quarter CPI's immediately prior to each financial year, to adjust the operating results for those years to their 2006/07 equivalent economic values.

8.14. ***Appendix 5, Page 1*** therefore shows CPI Adjusted Operating Profits / (Losses) from Ordinary Activities, Before Interest & Tax ("EBIT's), for the four financial years, as follows:

2003/04	($33,503)
2004/05	$9,917
2005/06	$43,579
2006/07	$44,489

8.15. In the circumstances, I have taken the average of the 2005/06 and 2006/07 CPI Adjusted Operating Profits, which is **$44,034**, as being representative of the Future Maintainable Profits of the Business.

8.16. I have then transferred that amount to ***Appendix 7***, where I calculate the **Value of the Intangible Assets** of the Business.

9. The Capitalisation Rate

9.1. A Discount Rate and therefrom, a Capitalisation Rate, appropriate to the operations of the Business, has to be established. To arrive at that rate, I have followed the procedure set out in ***Appendix 6, Page 1***.

[1] Wayne Lonergan - "The Valuation of Businesses, Shares and Other Equity, Fourth Edition (2003), at Page 34.

9.2. I have commenced with the Commonwealth Treasury Bonds 10 year rate for June 2007 of **6.26%**. That rate has been obtained from the Reserve Bank web site.

9.3. The next step in the procedure is to establish an appropriate current "Market Risk Premium". In doing so, I have given consideration to:

9.4. The third paragraph, page 157, of "The Valuation of Businesses, Shares and Other Equity", Fourth Edition (2003), by Wayne Lonergan, which states, "*The market risk premium (re)presents the additional return (typically 5 per cent to 8 per cent) over and above the risk free rate of return which investors will require in order to compensate them for the undiversifiable (sic) risks associated with an investment in the market portfolio*".

9.5. An Expert Opinion report, dated December 2005, by Robert G Bowman, Professor of the Department of Finance and Accounting, at the University of Auckland. This report was prepared for Telstra Corporation Limited, to give an expert opinion in relation to the Weighted Average Cost of Capital for its Unconditional Local Loop Service and Spectrum Sharing Service for the three financial years, 2005/06, 2006/07 and 2007/08 [2]. In that report, based on a 10 Year Bond Rate, Professor Bowman derived a "long-horizon" Market Risk Premium for Australia of 7.0%.

9.6. A professional paper delivered to members of the Chartered Institute of Accountants in Australia at the Business Valuation & Forensic Accounting Conference in Sydney, on 14 September 2006, by Professor RR Officer, Emeritus Professor, University of Melbourne.

9.7. In that paper, at page 29, he concludes, "Clearly, whether the most recent 30-year period or a long historical period of 124 years is taken, the data supports a MRP of at least 6%."

9.8. The average of the 7.0% rate derived by Profession Bowman and the 6% rate cited by Professor Officer is 6.5%. This average also equates to the mid-point of the range of 5% to 8% given by Mr Lonergan, which is 6.5%.

9.9. I have therefore adopted a Market Risk Premium of **6.5%**.

9.10. The procedure then requires the use of a ß (Beta) value in respect of the Consolidated Group. For listed public companies, those values are available from some stockbrokers and research institutions. The Beta provides a measure of the "volatility" of a company's stock which, I understand, is related to the risk perceived by investors to be inherent in a particular company's activities, relative to the stock market as a whole, so that a value of '1' would represent the average for the market.

[2] "Report on the Appropriate Weighted Average Cost of Capital for ULLS and SSS (Public Version)", prepared for Telstra, dated December 2005.

9.11. For unlisted entities, Betas are not available but an equivalent value may be "developed". The development process is not an exact science but provides a mathematically based result, as opposed to adopting just an industry standard or "seat of the pants" Discount Rate.

9.12. However, the ß value derived by following this process should, nevertheless, be then compared, for reasonableness, with an intuitive, "seat of the pants" figure. (A 'low' risk business would have a value of less than 1, an 'average' risk business, in the range 1 to 2, and a 'high' risk business, 2 or more.)

9.13. The method by which I derive a value of ß for the business is set out in ***Appendix 6, Page 3***. This shows a ß value of **1.13**.

9.14. By applying the formula, "[rf + (MRP)ß]", a "Cost of Equity for the Market" is derived.

9.15. However, the rate derived applies to a stock market investor, who could readily dispose of his or her investment. By contrast, there is a significant inertia in an investment in an unlisted business entity, i.e. the investment just can't be traded by a simple phone call. Rather, the process of selling a small business is often a difficult one, dependant on its profitability, lifestyle appeal, capital outlay required, availability of finance for the particular business type, projected or perceived customer trends for the relevant market and the economic outlook in general.

9.16. This results in the necessity to account for an additional "non-negotiability" element for investment in the Business.

9.17. In this regard, I have had reference to a paper of Wayne Lonergan, titled "Developments in Business Valuations", delivered to members of the Institute of Chartered Accountants in Australia in June 2004.

9.18. In his paper, Mr Lonergan refers to an Ibbotson Associates study, which quantified a "Small Company Risk Premium" of **5.78%** for investment in "smaller companies". Although this was an American study, I believe a premium of similar magnitude would apply to investment in an equivalent Australian "off market" business.

9.19. In his paper, he also refers to a Price Waterhouse study, which identified the existence of a "Small Company Risk Premium", for investment in "smaller companies", covering a very wide range, from **2.8%** to **15.8%**. However, that range is so large that is does not provide a definitive measure for such a premium.

9.20. Therefore, in my calculation of the Discount Rate, I have adopted a "Small Company Risk Premium" of **5.78%.**

9.21. Thus, in ***Appendix 6, Page 1***, I have derived a Cost of Equity for the Business, After Income Tax, of **19.39%**.

9.22. In ***Appendix 6, Page 1***, I then calculate the equivalent Before Company Income Tax Discount Rate to be **27.70%** (19.39% ÷ 70%).

9.23. Then, to convert that Discount Rate to a Capitalisation Rate, it requires adjustment, to account for future inflation ***(refer Appendix 6, Page 2, Note 6)***. I have therefore deducted **2.88%** from the Discount Rate, which is the average of the latest five years' March Quarter CPI's (Brisbane), up to March 2007 ***(refer Appendix 5, Page 2)***, to derive a Capitalisation Rate of **24.82%.**

9.24. However, the Discount Rate finally adopted should nevertheless then be compared, for reasonableness, with an intuitive, "seat of the pants" figure (typically 20% to 25% for low risk businesses, 25% to 35% for those of "average" risk and over 35% for businesses with considerable risk attached).

9.25. Therefore, for valuing the Business by the Capitalisation of Future Maintainable Profits method, I have adopted a Capitalisation Rate of **24.82%** ***(refer Appendix 6, Page 1)***. ***Page 2 of the Appendix*** sets out values for each of the components that combine to derive that rate.

10. Valuing the Intangible Assets of the Business

10.1. I have then set out, in ***Appendix 7, Pages 1 and 2***, details of my calculations, whereby I derive the Value of the Intangible Assets of the Business.

10.2. In doing so, by applying the Capitalisation Rate of **24.82%** to the Future Maintainable Profits of **$44,034** ***(refer Appendix 5, Page 1 and Appendix 6, Page 1)***, I first derive a Value of the Business, as at 30 June 2007, of **$177,413** ***(refer Appendix 7, Page 1)***.

10.3. This is followed by my calculation of the Value of the Net Tangible Assets used in the operations of the Business ***(refer Appendix 7, Pages 1 and 2)***.

10.4. For those Net Tangible Assets, ***Appendix 7, Pages 1 and 2*** show which of the whole of the Assets and Liabilities of the Company have been taken into account. ***Page 3 of the Appendix*** sets out details of the types of Assets and Liabilities that should be included and excluded from the Net Tangible Assets.

10.5. **Property, Plant & Equipment**. I have not been provided with an independent valuation of the Property, Plant & Equipment held by the Business, as at 30 June 2007.

10.6. However, the Balance Sheet of Heart Monitors, as at that date, shows that all of the Property, Plant & Equipment, in the "books of account", has been completely written off.

10.7. As those assets are still being used in the Business, I have had to allocate an Economic In-use Value to them. I understand that the "Economic In-use Value" of Property, Plant & Equipment is its value, in the context of the business operations in which it is used.

10.8. It would therefore comprise the values allocated to such assets, were the Business to be sold to third parties, i.e., their Market Values. It is not the values that could be realised by the sale of the assets, on an individual basis, which would normally be much less.

10.9. Therefore, for the Property, Plant & Equipment to be included in the Net Tangible Assets of the Business, I have adopted Economic In-use Values equal to **30%** of their original costs.

10.10. Consequently, in ***Appendix 7, Page 1***, I have reduced the Accumulated Amortisation or Depreciation on each category of Property, Plant & Equipment, by **30%.**

10.11. Thus, ***Appendix 7, Page 2*** shows the value of the Net Tangible Assets, used in the operations of the Business, to be **$100,601**.

10.12. By deducting that value from the Value of the Business of **$177,413** ***(refer Appendix 7, Page 1)***, I have derived a Value of the Intangible Assets of the Business of **<u>$76,812</u>** ***(refer Appendix 6, Page 2)***.

10.13. That Intangible Assets value would comprise mostly Intellectual Property. However, in the context of this valuation, it is not necessary to ascribe any portion of it to Intellectual Property.

10.14. I have then transferred that Intangible Assets Value to ***Schedule 1***, where I value the Equity and the Shareholdings of Heart Monitors.

11. Valuation of the Equity of Heart Monitors

11.1. In ***Schedule 1, Pages 1 and 2***, I have set out the Balance Sheet of Heart Monitors, as per Valuation as at 30 June 2007 (also referred to as "the Valuation Balance Sheet").

11.2. In doing so, I have adopted the "book values" of the Assets & Liabilities, except for the following:

11.2.1. **Property, Plant & Equipment.** For the Property, Plant & Equipment, I have included those assets, at the same values as those established for valuing the Net Tangible Assets of the Business ***(refer Appendix 7, Page 1)***.

11.2.2. **Intellectual Property**. In accordance with my calculation of the value of the Intangible Assets of the Business ***(refer Appendix 7, Page 2)***, I have reduced the "book" values of the Intellectual Property and the Accumulated Amortisation thereon to **Nil** and substituted an **Intangible Assets** Value of **<u>$76,812</u>**.

11.3. After making these adjustments to the "book values" of the Assets of Heart Monitors, ***Schedule 1, Page 2*** shows the Value of the Equity thereof to be a Deficiency of **<u>($435,188)</u>**.

11.4. Consequently, the Value per Issued Share is '**<u>Nil</u>**'.

12. Valuation of the Associated Medical Entities

12.1. I have been provided with the Company's consolidation Balance Sheet as at 30 June 2007, detailing the net asset position of all entities that formed the Company's financial report as at that date.

12.2. The table below details the Associated Medical Entities that formed part of the Company and their Net Asset (Deficiency) Position as at 30 June 2007:

Entity	Net Asset (Deficiency) Position
Wellness Monitoring Inc	($1,555,908)
Medical Monitors (UK) Limited	($120,736)
E-Medicine Services Limited	($201,433)

12.3. In addition, the Company's Profit and Loss consolidation spreadsheet for the financial year ended 30 June 2007 shows that the above Associated Medical Entities did not trade in that period.

12.4. I have request, but not been provided with a Balance Sheet as at 30 June 2007 or a Profit and Loss Statement for the financial year ended 30 June 2007 for Medpri Limited and Care Medical Limited.

12.5. However, I am advised by Ms Lynn Thompson of Shell that Medpri Limited and Care Medical Limited have not traded since 2004 and they do not hold any assets or liabilities as at 30 June 2007.

12.6. I have therefore attributed a **$Nil** Net Asset position to Medpri Limited and Care Medical Limited.

12.7. I have attributed a **$Nil** Value ***(refer Schedule 1, Page 3)*** to all Associated Medical Entities, because:

12.7.1. All Associated Medical Entities either have a $Nil Net Asset position or a Net Asset deficiency; and

12.7.2. All Associated Medical Entities have not traded in the financial year ended 30 June 2007.

12.8. I have not been advised the number of ordinary shares held by the Company in the Associated Medical Entities.

12.9. However, irrespective of the number of shares held, the Total Value of each of the Associated Medical Entities is $Nil, therefore, the Value per Share is **$Nil**.

13. Declaration by Expert

13.1. Shell has engaged the Brisbane office of Moore Stephens (Queensland) Ltd to conduct accounting, consultancy and taxation services.

13.2. However, the relationship between myself, and all parties associated with the Transaction is at arms-length, in all respects.

13.3. I do not hold any financial interest either directly or indirectly in any party associated with the Transaction.

13.4. The fee that Moore Stephens may receive in connection with the preparation of this report will be of the order of $19,800 (inclusive of GST).

13.5. I have made all the inquiries which I believe are desirable and appropriate and no matters of significance, which I regard as relevant have, to my knowledge, been withheld or disregarded in forming the opinion reached in this report.

13.6. I am not aware of the existence of any readily ascertainable additional facts that would assist me in reaching a more reliable conclusion. However, should additional documents or information subsequently be made available to me that would materially affect the opinion expressed in this report or if, for any reason, I change that opinion in any way, I reserve the right to amend my report accordingly.

Yours faithfully

Michael J McDonald
Principal, Forensic Accounting
Moore Stephens
Direct Line: 07 3317 7851
E-mail: mmcdonald@moorestephens.com.au

Schedules

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Heart Monitors Pty Ltd

Wholly Owned Subsidiary of
Medical Monitors Limited

Balance Sheet as per Valuation

as at 30 June 2007

	Value as per Books of Account 30-Jun-07	Adjustment on Valuation	Valuation Amount as at 30-Jun-07	*Refer*	
Assets					
Current Assets					
Cash at Bank	$1,611		$1,611		
Petty Cash	$50		$50		
GST Clearing	$5,060		$5,060		
Loan - Kaitek	$150		$150		
Loan - AND Tech	$150		$150		
Loan - Morgan Tomas Max	$150		$150		
Total Current Assets	$7,171	$0	$7,171		
Non-current Assets					
Property, Plant and Equipment					
Leased Equipment	$136,652		$136,652	*Appendix*	*7*
Less Accumultated Amortisation	($136,652)	$40,996	($95,656)	*Page*	*1*
	$0	$40,996	$40,996		
Office Equipment	$2,728		$2,728		
Less Accumulated Depreciation	($2,728)	$818	($1,910)		
	$0	$818	$818		
Monitoring Systems	$231,113		$231,113		
Less Accumulated Depreciation	($231,113)	$69,334	($161,779)		
	$0	$69,334	$69,334		
Furniture & Fittings	$4,417		$4,417		
Less Accumulated Depreciation	($4,417)	$1,325	($3,092)		
	$0	$1,325	$1,325		
Total Property, Plant & Equipment	$0	$112,473	$112,473		
Intangible Assets					
Intellectual Property	$5,929,600	($5,929,600)			
Less Accumultated Amortisation	($2,957,194)	$2,957,194			
Intangible Assets - at Valuation		$76,812	$76,812	*Appendix*	*7*
				Page	*2*
Total Intangible Assets	$2,972,406	($2,895,594)	$76,812		
Total Non-current Assets	$2,972,406	($2,783,121)	$189,285		
Total Assets	**$2,979,577**	**($2,895,594)**	**$83,983**		
(carried forward)					

				Schedule 1
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Heart Monitors Pty Ltd

Wholly Owned Subsidiary of
Medical Monitors Limited

Balance Sheet as per Valuation

as at 30 June 2007

	Value as per Books of Account 30-Jun-07	Adjustment on Valuation	Valuation Amount as at 30-Jun-07	Refer
Total Assets	**$2,979,577**	**($2,895,594)**	**$83,983**	*Schedule 1*
(brought forward)				*Page 1*
Liabilities				
Current Liabilities				
Trade Creditors	$18,593		$18,593	
Lease Liability	$14,255		$14,255	
Total Current Liabilities	$32,848	$0	$32,848	
Non-current Liabilities				
Loan from MDM Aust.	$51,327		$51,327	
Accrued Interest Govt Loan	$74,496		$74,496	
Loan - C'wealth Government	$360,500		$360,500	
Total Non-current Liabilities	$486,323	$0	$486,323	
Total Liabilities	$519,171	$0	$519,171	
Net Assets	**$2,460,406**	**($2,895,594)**	**($435,188)**	
Equity				
Issued Capital - $1 ord	$1,242,250	($2,895,594)	($1,653,344)	
Revaluation Reserve	$5,562,714		$5,562,714	
Accumulated Losses	($1,257,385)		($1,257,385)	
Retained Earnings	($1,928,612)		($1,928,612)	
Current Earnings	($1,158,562)		($1,158,562)	
Rounding Adjustment			$1	
Total Equity	**$2,460,405**	**($2,895,594)**	**($435,188)**	
No. of Issued Ordinary Shares			10,359	
Value per Share			**Nil**	

Value of
Associated Medical Entities of Medical Monitors Limited as at 30 June 2007

Refer

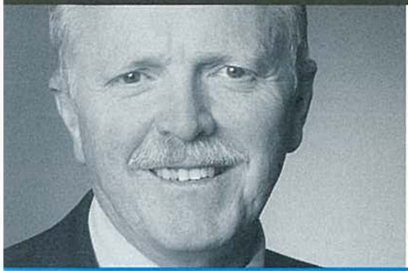
Entity	Net Asset Position	Total Value	Number of Shares	Value per Share
Medpri Limited	$0	$Nil	Unknown	$Nil
Wellness Monitoring Inc	($1,555,908)	$Nil	Unknown	$Nil
Medical Monitors (UK Limited	($120,736)	$Nil	Unknown	$Nil
E-Medicine Services Limited	($201,433)	$Nil	Unknown	$Nil
Care Medical Limited	$0	$Nil	Unknown	$Nil

List of Appendices

REPORT OF MR MICHAEL JOSEPH MCDONALD
IN THE MATTER OF
HEART MONITORS PTY LTD
EXPERT OPINION UNDER PARA. 10.10.2 OF THE ASX LISTING RULES
LIST OF APPENDICES

Appendix Number	Page(s)	Description
1	1	Qualifications and Experience of Mr Michael McDonald
1	1	Qualifications and Experience of Mr Steven Ponsonby
2	1 to 2	Information Provided
3	1 to 35	Share Sale Agreement Between Icardia Healthcare Pty Ltd and Medical Monitors Limited
4	1 to 2	Heart Monitors Pty Ltd Summary of Detailed Profit and loss Statements for the financial years ended 30 June 2004 to 2007 (inclusive)
5	1	Heart Monitors Pty Ltd Calculation of the Future Maintainable Profits of the Business on a Before Interest & Tax Basis for the financial years ended 30 June 2004 to 2007 (inclusive)
5	2	Consumer Price Index History (All Groups) (Brisbane) From 1985 to Present Obtained from Publications of the Australian Bureau of Statistics
6	1 to 2	Heart Monitors Pty Ltd Calculation of a Discount/Capitalisation Rate to Apply to Earnings Before Interest & Tax for the purpose of Calculating the Value of a Business Based on the Capital Asset Pricing Model "Cost of Equity" Formula
6	3	Heart Monitors Pty Ltd Calculation of a "ß Equivalent" for the Business being Valued
7	1 to 3	Heart Monitors Pty Ltd Value of the Intangible Assets of the Business

Appendix 1



Personal Profile

Mike McDonald

Principal– Assurance and Forensic Accounting

Member of Institute of Chartered Accountants in Australia
Associate Fellow of Australian Institute of Management
Commissioner for Declarations
Graduate Certificate in Forensic Studies (Accounting)
Masters of Business Administration (Executive)
Member of Australian Institute of Company Directors
Registered Company Auditor
Member, Association of Certified Fraud Examiners

With extensive experience across a multitude of industries and specialist skills in the areas of audit, assurance, Fraud Investigation, risk management, business development and information technology, Mike is the principal responsible for the Assurance and Forensic Accounting division of Moore Stephens in Brisbane. He is a skilled professional with over 30 years experience in the areas of strategic and operational planning, structures, budgeting, performance improvement, change management and specific litigation assignments to a diverse group of companies, government agencies, organisations and the legal profession.

Mike is an independent expert providing expert opinion reports and undertaking investigations in the areas of valuations, independent consultative services, fraud, personal injury assessments, family law disputes, settlements and assessment of damages.

His professional integrity is relied upon by the legal profession to attend mediation conferences and provide highly credible expert testimony in Court.

Expertise

Assurance, Audit and Forensic Accounting, Business Development, Fraud, Strategic Planning, Management & Financial Advice, Information Technology

Specialisation

Construction, Property, Bio Technology Research Establishments, Medical, Information Technology, Retail, Education, Government, Growth Entrepreneurial Business, Health and Aged Care, Not for Profit Associations, Primary Production, Tourism & Hospitality

Community Involvement

Volunteer Lifesaver, Caloundra Surf Club
Executive Member, Queensland Water Polo Inc.
Executive Member, Queensland Surf Life Saving Association
(Risk Management Committee)

Personal Profile

Steven Ponsonby

Professional Qualifications

Chartered Accountant
Certified Fraud Examiner
Insolvency Practitioner
Bachelor of Commerce, University of Tasmania
Fitter & Machinist

Professional Memberships

Member of Institute of Chartered Accountants in Australia
Member of Insolvency Practitioners Association
Member of Association of Certified Fraud Examiners

Steven has worked in a number of professional services firms ranging from the Big 4 to large mid-tier firms, prior to establishing Forensic Accounting (QLD) Pty Ltd, a specialist Forensic Accounting practice.

Steven's key strengths centre on a wealth of business acumen and understanding of the corporate environment, investigative and review expertise, demonstrated communication skills and the ability to provide focused advice.
Steven has been actively involved in the management and operational control of many businesses.

Steven's investigative skill set emanates from his insolvency and audit background. Highly skilled in the insolvency and reconstruction field with an impressive track record, Steven has been involved in an array of insolvency matters from Receiverships, Court appointed Liquidations, Creditor's Voluntary Liquidations and Voluntary Administrations, through to personal insolvency.

As a Director of Forensic Accounting (QLD), Steven is responsible for the provision of Expert Accountant's reports ranging from Family Law matters and business valuations to financial fraud investigation and digital data retrieval and analysis.

These skills are further backed up by 10 years experience in an industrial trade and involvement in managing a family owned business providing a solid foundation and understanding of business principles.

Expertise

Forensic Accounting, including Business Valuations, Family Law matters, Financial Fraud Investigation, Digital Data Analysis, Quantification of Commercial Damages, Economic Loss Quantification, Litigation Support, & Insolvency and Business Recovery.

Appendix 2

REPORT OF MR MICHAEL JOSEPH MCDONALD
IN THE MATTER OF
HEART MONITORS PTY LTD
EXPERT OPINION UNDER PARA. 10.10.2 OF THE ASX LISTING RULES
INFORMATION PROVIDED

Item No.	Included in this Report as - Appendix No.	Page(s)	Details
1	-	-	Draft Sale agreement between Icardia Healthcare Pty Ltd and Medical Monitors Limited
2	-	-	Intellectual Property Acquisition Deed between Medical Monitors Limited and Global Immune Technologies Inc.
3	-	-	Securities Exchange Agreement between Global Immune Technologies In., MedPri Limited, Primedical International Inc. & Medical Monitors Limited dated 19 July 2006
4	-	-	Heart Monitors Pty Ltd Profit and loss Statement For the financial years ended 30 June 2004 to 2007 (inclusive)
5	-	-	Medical Monitors Limited and Controlled Entities Balance Sheets As at 30 June 2004 to 2007 (inclusive)
6	-	-	Heart Monitors Pty Ltd General Ledger Detail For the Period 1 July 2006 to 30 June 2007
7	-	-	Heart Monitors Pty Ltd Balance Sheet As at 30 June 2007
8	-	-	Shell Villages & Resorts Ltd & Controlled Entities Annual Financial Report for the year ended 30 June 2007
9	-	-	Medical Monitors Limited and Controlled Entities Consolidation Spreadsheet Profit and Loss for the Financial Year Ended 30 June 2005, 2006 and 2007 and Balance Sheet as at 30 June 2007
10	-	-	Draft notice of meeting materials

REPORT OF MR MICHAEL JOSEPH MCDONALD
IN THE MATTER OF
HEART MONITORS PTY LTD
EXPERT OPINION UNDER PARA. 10.10.2 OF THE ASX LISTING RULES
INFORMATION PROVIDED

Item No.	Included in this Report as - Appendix No.	Page(s)	Details
11	-	-	Draft notice of meeting materials
12			Details of loans to be assigned to Icardia Healthcare Pty Ltd
13	-	-	Shell Villages & Resorts Ltd website
14	-	-	Company search for Icardia Healthcare Pty Ltd
15	-	-	Company search for Heart Monitors Pty Ltd
16	-	-	ASX Listing Rules - Chapter 10
17	-	-	ASIC Regulatory Guide No. 74 - Acquisitions agreed to by shareholders
18	-	-	ASIC Regulatory Guide No. 111 - Contents of Experts Reports
19	-	-	ASIC Regulatory Guide No. 112 - Independence of Experts

Appendix 3

Ann ... 1/10/07

ICARDIA HEALTHCARE PTY LTD
ACN 001 869 843
(Purchaser)

and

MEDICAL MONITORS LIMITED
ACN 009 161 522
(Vendor)

SHARE SALE AGREEMENT

CONTENTS

THIS AGREEMENT is made the 23rd day of August 2007

BETWEEN

ICARDIA HEALTHCARE PTY LTD (ACN 001 869 843) of 59 Sunnyside Crescent, Castlecrag, New South Wales (**Purchaser**);

AND

MEDICAL MONITORS LIMITED (ACN 009 161 522) of 213 Brisbane Terrace, Goodna, Queensland (**Vendor**).

RECITALS

A. The Vendor is the legal and beneficial owner of the Transaction Shares.

B. The Vendor has agreed to sell and the Purchaser has agreed to purchase the Transaction Shares pursuant to the terms of this Agreement.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

Agreement means the agreement constituted by this document and includes the recitals.

Assets means the current and non-current assets of the Company as at the Execution Date which are set out in Schedule 2.

ASX means ASX Limited.

Authorisation means any permit, approval, authorisation, consent, exemption, filing, licence, notarisation, registration or waiver however described and any renewal or variation to any of them.

Business means the business of the Company as at the Execution Date, being the business of selling and supplying medical products.

Business Contracts means all agreements, leases, contracts and arrangements to which the Company is a party and which are, in whole or in part, executory as at the Execution Date, the details of which are set out in Schedule 6.

Business Day means a day that is not a Saturday, Sunday or public holiday in New South Wales.

Claim means in relation to any person, a claim, action or proceeding, judgment, damage, loss, cost, expense or liability incurred by or to or made or recovered by or against the person, however arising and whether present, unascertained, immediate, future or contingent.

Company means Heart Monitors Pty Ltd (ACN 080 886 031).

Company Share means a fully paid ordinary share in the capital of the Company.

Conditions means the conditions precedent set out in clause 2.1.

Confidential Information means any trade secrets, lists of information pertaining to clients of the Company or suppliers, specifications, drawings, inventions, ideas, records, reports, software, patents, designs, copyright material, secret processes or other information, whether in writing or otherwise, relating to the Company.

Consideration means $2,511,732.46 payable in accordance with clause 3.2.

Corporations Act means the Corporations Act 2001 (Cth).

Disclosure Material means the information disclosed by the Vendor to the Purchaser prior to the Execution Date, which information is set out in Annexure "A" to this Agreement.

Encumbrance means any encumbrance, mortgage, pledge, charge, lien, assignment, hypothecation, security interest, title retention, preferential right or trust arrangement and any other security or agreement of any kind given or created and including any possessory lien in the ordinary course of business whether arising by operation of law or by contract.

End Date means 5:00pm (EST) on 30 November 2007.

EST means Eastern Standard Time as observed in Sydney, New South Wales.

Event of Insolvency means:

(a) a receiver, manager, receiver and manager, trustee, administrator, controller or similar officer is appointed in respect of a person or any asset of a person;

(b) a liquidator or provisional liquidator is appointed in respect of the corporation;

(c) any application (not being an application withdrawn or dismissed within 7 days) is made to a court for an order, or an order is made, or a meeting is convened, or a resolution is passed, for the purposes of:

 (i) appointing a person referred to in paragraphs (a) or (b);

 (ii) winding up a corporation; or

 (iii) proposing or implementing a scheme of arrangement;

(d) any event or conduct occurs which would enable a court to grant a petition, or an order is made, for the bankruptcy of an individual or his estate under any Insolvency Provision;

(e) a moratorium of any debts of a person, or an official assignment, or a composition, or an arrangement (formal or informal) with a person's creditors, or any similar proceeding or arrangement by which the assets of a person are subjected conditionally or unconditionally to the control of that person's creditors or a trustee, is ordered, declared, or agreed to, or is applied for and the application is not withdrawn or dismissed within 7 days;

(f) a person becomes, or admits in writing that it is, is declared to be, or is deemed under any applicable law to be, insolvent or unable to pay its debts; or

(g) any writ of execution, garnishee order, mareva injunction or similar order, attachment, distress or other process is made, levied or issued against or in relation to any asset of a person.

Execution Date means the date of this Agreement.

Further Shares means ~~a~~ all ~~fully paid~~ ordinary shares held by the vendor in the capital of Medpri Limited, Wellness Monitoring Inc, Medical Monitors (UK) Limited, E-Medicine Services Limited, and Care Medical Limited.

GST has the meaning given to it in the GST Act.

GST Act means A New Tax System (Goods and Services Tax) Act 1999 and any regulations thereto or such other act or regulations of equivalent effect.

Insolvency Provision means any law relating to insolvency, sequestration, liquidation or bankruptcy (including any law relating to the avoidance of conveyances in fraud of creditors or of preferences, and any law under which a liquidator or trustee in bankruptcy may satisfy or avoid transactions), and any provision of any agreement, arrangement or scheme, formal or informal, relating to the administration of any of the assets of any person.

Intellectual Property Licence means all agreements under which the Company obtains from any person the exclusive or non-exclusive right to use, but not the ownership of, any of the Intellectual Property Rights referred to in paragraphs (a) to (c) inclusive of the definition of that term.

Intellectual Property Rights means:

(a) the business names or trademarks owned or used at any time by the Company;

(b) the Confidential Information owned or used at any time by the Company;

(c) the patents, patent applications, registered designs, unregistered designs, copyright and all other similar rights owned or used at any time by the Company; and

(d) the Intellectual Property Licences.

Invoice means a tax invoice as defined in and for the purposes of the GST Act or any document allowing the Recipient to claim an input tax credit under the GST Act.

Last Accounts means the consolidated statement of financial position and statement of financial performance of the Company for the year ended on the Last Accounts Balance Date, true copies of which are set out in Schedule 5.

Last Accounts Balance Date means 30 June 2007.

Leases means the leases of real property held by the Company.

Officer, in relation to a corporation, has the same meaning given to that term in Section 9 of the Corporations Act.

Party means a party to this Agreement and Parties has a corresponding meaning.

Premises means all the land and buildings owned, leased or occupied by the Company as set out in Schedule 3.

Prescribed Occurrence means:

(a) the Company converting all or any of its shares into a larger or smaller number of shares;

(b) the Company resolving to reduce its share capital in any way;

(c) the Company:

   (i) entering into a buy back agreement; or

   (ii) resolving to approve the terms of a buy back agreement under Sub-Section 257C or 257D of the Corporations Act;

(d) the Company making an allotment of, or granting an option to subscribe for, any of its shares or agreeing to make such an allotment or grant such an option;

(e) the Company issuing, or agreeing to issue any security, share or loan capital or any security convertible into any share or loan capital;

(f) the Company disposing, or agreeing to dispose, of the whole, or a substantial part, of its Business or property;

(g) the Company charging, agreeing to charge, the whole, or a substantial part, of its Business or property;

(h) the Company resolving that it be wound up;

(i) the appointment of a provisional liquidator of the Company;

(j) the making of an order by a court for the winding up of the Company;

(k) an administrator of the Company being appointed under Section 436A, 436B or 436C of the Corporations Act;

(l) the Company executing a deed of company arrangement; or

(m) the appointment of a receiver, or a receiver and manager, in relation to the whole, or a substantial part, of the property of the Company.

Regulatory Authority means the ASIC, ASX or the Takeovers Panel (as referred to in the Corporations Act) or any other relevant regulatory body.

Relevant Law means the Corporations Act 2001 (Cth), the ASX Listing Rules and any other law which may be relevant to, or have an impact on, the transaction contemplated by this Agreement.

Revenue Authority means any Federal, State, Territory or local government authority or instrumentality in respect of Tax.

Settlement means the settlement on the Settlement Date of the sale and purchase of the Transaction Shares in accordance with the terms of this Agreement.

Settlement Date means that date which is 5 Business Days after the satisfaction of the Conditions (or such other date as is agreed in writing between the Parties).

Statutes means all legislation of any country, state or territory enforced at any time, and any rule, regulation, ordinance, by law, statutory instrument, order or notice at any time made under that legislation.

Superannuation Commitment means any legal liability (whether arising under an industrial award or agreement or otherwise) or voluntary commitment to make contributions to any superannuation fund, pension scheme or other arrangement which will provide directors or employees of the Company or their respective dependents with pensions, annuities, lump sums or any other payments upon retirement or earlier death or otherwise.

Tax means any tax, levy, charge, impost, duty, fee, deduction, compulsory loan, withholding, stamp, transaction, registration, duty or similar charge which is assessed, levied, imposed or collected by any government agency and includes, but is not limited to, any interest, fine, penalty, charge, fee or any other accounting imposed on, or in respect of, any of the above.

Taxable Supply has the meaning given to it in the GST Act.

Tax Act means the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997.

Transaction Shares means 10,359 Company Shares which are beneficially and legally owned by the Vendor and any Further Shares to the extent these are beneficially and legally owned by the Vendor.

1.2 **Interpretation**

In this Agreement unless the context otherwise requires:

(a) headings are for convenience only and do not affect its interpretation;

(b) an obligation or liability assumed by, or a right conferred on, 2 or more Parties binds or benefits all of them jointly and each of them severally;

(c) the expression **person** includes an individual, the estate of an individual, a corporation, an authority, an association or joint venture (whether incorporated or unincorporated), a partnership and a trust;

(d) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation;

(e) a reference to any document (including this Agreement) is to that document as varied, novated, ratified or replaced from time to time;

(f) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;

(g) words importing the singular include the plural (and vice versa) and words indicating a gender include every other gender;

(h) reference to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Agreement and a reference to this Agreement includes any schedule, exhibit or annexure to this Agreement;

(i) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;

(j) a reference to $ or **dollar** is to Australian currency; and

(k) a reference to a payment is to a payment by bank cheque unless the recipient otherwise allows.

2. CONDITIONS PRECEDENT

2.1 Conditions

Clauses 3 and 4 of this Agreement are subject to and conditional upon:

(a) the Purchaser being satisfied as at the Execution Date and Settlement Date that:

(i) the Vendor has not materially breached this Agreement; and

(ii) none of the Warranties is or has become false, misleading or incorrect;

(b) neither the Vendor nor the Purchaser being prevented from completing the transaction contemplated by this Agreement by virtue of receiving any notice (whether written or verbal) from any Regulatory Authority in relation to non-compliance with any Relevant Law by any aspect of the transaction contemplated by this Agreement; and

(c) the Vendor obtaining all necessary shareholder approvals required to complete the transactions contemplated by this Agreement.

2.2 Benefit of the Purchaser

The Conditions are inserted in this Agreement for the benefit of the Purchaser and the Purchaser may, by notice in writing to the Vendor on or before the Settlement Date, waive any of the Conditions or grant an extension of time for satisfaction of the Conditions.

2.3 Satisfaction or waiver of Conditions

Subject to clause 2.2, if the Conditions are not satisfied, or waived by the Purchaser, in accordance with the provisions of this Agreement on or before the End Date, this Agreement shall be deemed to be at an end and of no force or effect with no Party being subject to any of the obligations contained in this Agreement and with no Party claiming any rights at law or in equity against any other Party save for the obligations under clause 8 and the performance of those covenants and agreements (if any) which should have already been performed and all damages for breach of the same.

2.4 Best endeavours

The Parties must each use their best endeavours to satisfy the Conditions.

2.5 Notice

The Purchaser and the Vendor must promptly notify the other in writing if any of the Conditions are satisfied or cannot be satisfied.

3. TRANSACTION

3.1 Agreement to buy and sell Transaction Shares

The Vendor, as legal and beneficial owner of the Transaction Shares, agrees to sell free from Encumbrances and the Purchaser agrees to purchase the Transaction Shares for the Consideration and on the further terms and conditions set out in this Agreement.

3.2 Consideration

The Consideration payable by the Purchaser will be satisfied as follows:.

(a) $2,511,112.46 as cancellation of outstanding loans including accumulated interest and charges payable to Dr A & R Shell or his associated entities by the Vendor;

4. SETTLEMENT

4.1 Time and Location of Settlement

Settlement shall take place on the Settlement Date at the offices of the Vendor or at such other offices and at such other time as the Parties may otherwise agree in writing.

4.2 Vendor' obligations at Settlement

At Settlement, the Vendor must confer on the Purchaser title to the Transaction Shares and place the Purchaser in effective possession and control of the Company. To this end, at or prior to Settlement:

(a) the Vendor covenants to, if required by the Purchaser, deliver or cause to be delivered to the Purchaser in a form and substance satisfactory to the Purchaser:

(i) share certificate(s) in respect of the Transaction Shares; J

(ii) a separate instrument of transfer in registrable form for the Transaction Shares in favour of the Purchaser (as transferee) which have been duly executed by the Vendor (as transferor);

(iii) the common seal (and any duplicate common seal, share seal or official seal) of the Company;

(iv) all available copies of the constitution of the Company;

(v) the minute books and other records of meetings or resolutions of members and directors of the Company;

(vi) all registers of the Company (including the register of members, register of options, register of directors, register of charges) in proper order and condition and fully entered up to the Settlement Date;

(vii) all cheque books, financial and accounting books and records, copies of tax returns and assessments, mortgages, leases, agreements, insurance policies, title documents, licences, indicia of title, contracts, certificates and all other records, papers, books and documents of the Company;

(viii) a duly completed authority for the alteration of the signatories of each bank account of the Company in the manner required by the Purchaser by written notice before the Settlement Date; and

(ix) all current Authorisations and other documents issued to the Company under any legislation or ordinance relating to Business activities; and

(b) procure that directors' meetings of the Company are held to attend to the following matters (as applicable):

(i) the approval of the registration (subject to payment of stamp duty, if any) of the transfers of the Transaction Shares and the issue of a new share certificate for the Transaction Shares in the name of the Purchaser;

(ii) if required by the Purchaser, the appointment as additional directors and secretaries of the Company of those persons nominated by the Purchaser by written notice before the Settlement Date;

(iii) if required by the Purchaser, the retirement, by written notice, of the Vendor's representatives as secretary and directors of the Company with effect from the end of that meeting acknowledging that each of them has no Claim of any kind whatsoever against the Company by way of compensation or entitlement for loss of office including (without limitation) in respect of his or her legal entitlements to accrued long service leave and annual pay (if any);

(iv) if required by the Purchaser, the revocation of all existing authorities to operate bank accounts; and

(v) the transaction of any other reasonable business of which the Purchaser may give notice before the Settlement Date.

4.3 **Purchaser's obligations at Settlement**

Subject to the Vendor's performance of the Vendor's obligations under clause 4.2, at Settlement the Purchaser must satisfy payment of the Consideration to the Vendor in the manner set out in clause 3.2.

4.4 Conditions of Settlement

(a) Settlement is conditional on both the Purchaser and the Vendor complying with all of their obligations under this clause 4.

(b) If either the Vendor or the Purchaser fails to fully comply with their obligations under this clause 4 and the Parties do not complete this Agreement then:

(i) each Party must return to the other all documents delivered to it under this clause 4;

(ii) each Party must repay to the other all payments received by it under this clause 4; and

(iii) each Party must do everything reasonably required by the other Party to reverse any action taken under this clause 4,

without prejudice to any other rights any Party may have in respect of that failure.

5. COVENANTS BY THE VENDOR

5.1 Covenants about the Company

The Vendor covenants with the Purchaser that during the period commencing on the Execution Date and expiring on the Settlement Date, the Company will not, except as contemplated by this Agreement, without the prior written consent of the Purchaser:

(a) enter into, terminate or alter any term of any material contract or commitment;

(b) incur any material liability;

(c) acquire any material asset or authorise any material capital expenditure;

(d) dispose of, agree to dispose of, assign, agree to assign, encumber or grant any option over any of its assets or any interest in any of them;

(e) hire or terminate the employment of or pay or agree to pay any bonus or allowance to any employee or alter the terms of employment (including the terms of superannuation or any other benefit) of any employee;

(f) grant any option to subscribe for any security in the Company or allot or issue or agree to allot or issue any security, share or loan capital or any security convertible into any share or loan capital in the Company;

(g) resolve to reduce its share capital in any way;

(h) enter into a buy-back agreement or resolve to approve the terms of a buy-back agreement;

(i) declare or pay any dividend or make any other distribution of its assets or profits;

(j) alter or agree to alter its constitution;

(k) pass any resolution; or

(l) resolve any programs or budgets in relation to the Company.

5.2 Further Covenants by the Vendor

The Vendor covenants in favour of the Purchaser that during the period commencing on the Execution Date and expiring on the Settlement Date it will:

(a) allow the Purchaser to carry out a financial, commercial and legal due diligence in relation to the Company and will provide the Purchaser with all relevant information in respect of the Company, in order for the Purchaser to complete this due diligence;

(b) ensure that the approval of any third parties is obtained to the transfer of the Transaction Shares pursuant to this Agreement (if required); and

(c) provide confirmation from all third party financiers to the Company that they consent to the change of control of the Company or that the change of control is not an event of default pursuant to any financing arrangements.

5.3 Event affecting value of Transaction Shares

If, on or before Settlement, an event occurs which has or may have a material effect on the profitability or value of the Transaction Shares, or the value of the Business the Vendor must, immediately upon becoming aware of that event, give written notice to the Purchaser fully describing the event.

6. REPRESENTATIONS AND WARRANTIES BY THE VENDOR

6.1 Representations and Warranties

The Vendor warrants and represents to the Purchaser, as an inducement to the Purchaser to enter into this Agreement and it is a condition of this Agreement that the statements set out in Schedule 1 are true, complete and accurate, both at the Execution Date and at the Settlement Date.

6.2 Repetition on Settlement Date

The matters set out in Schedule 1 will be taken to be repeated by the Vendor on the Settlement Date with reference to the facts and circumstances existing at that date.

6.3 Limitation on Warranties

(a) The Vendor is not liable to the Purchaser for any Claim under or in connection with this Agreement, or the transactions contemplated by it, unless the Purchaser has given written notice to the Vendor setting out reasonable details of the specific matter in respect of which the Claim is made:

(i) within 7 years after the Settlement Date in respect of any such Claim relating to any Tax; and

(ii) within 12 months after the Settlement Date in respect of all other Claims, and (subject to the Vendor and the Purchaser otherwise agreeing in writing) court proceedings have been issued and properly served by the Purchaser against the Vendor in respect of such Claim within the period of 6 months immediately following notification of the Claim.

(b) The Vendor is not liable to the Purchaser for any Claim for breach of warranty under this Agreement or any breach of any other provision of this Agreement or under any indemnity in this Agreement, and the Purchaser is not entitled to make a Claim, if and to the extent that the facts, matters or circumstances giving rise to the Claim are set out in the Disclosure Material.

The limitations set out in paragraphs (a) and (b) above will not apply in respect of the warranties referred to in Part 1 of Schedule 1 or clause 7.

7. GENERAL REPRESENTATIONS AND WARRANTIES BY ALL PARTIES

Each Party represents and warrants to the other Parties that:

(a) if a Party is a corporation, it is duly registered under the Corporations Act;

(b) the entry into and performance of this Agreement by the Party does not constitute a breach of any obligation (including any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which the Party is bound;

(c) the Party has taken all necessary action to authorise the execution, delivery and performance of this Agreement in accordance with its terms; and

(d) no Event of Insolvency has occurred in relation to the Party nor is there any act which has occurred or any omission made which may result in an Event of Insolvency occurring in relation to the Party.

8. CONFIDENTIALITY

8.1 Terms to remain confidential

Each Party is to keep confidential the terms of this Agreement, and any other Confidential Information obtained in the course of furthering this Agreement, or during the negotiations preceding this Agreement, and is not to disclose it to any person except:

(a) to employees, legal advisers, auditors and other consultants requiring the information for the purposes of this Agreement;

(b) with the written consent of the other Parties;

(c) if such information is, at the date of this Agreement, lawfully in the possession of the recipient of such information through sources other than any of the other Parties;

(d) if required by law or a stock exchange;

(e) if strictly and necessarily required in connection with legal proceedings relating to this Agreement;

(f) if the information is generally and publicly available other than as a result of a breach of confidence; or

(g) to a financier or prospective financier (or its advisers) of a Party.

8.2 **Disclosure of Information**

A Party disclosing Confidential Information must use all reasonable endeavours to ensure that persons receiving Confidential Information from it do not disclose the information except in the circumstances permitted in clause 8.1.

8.3 **Obligations continuing**

The obligations under this clause 8 contain obligations, separate and independent from the other obligations of the Parties and remain in existence for a period of five (5) years from the Execution Date, regardless of any termination of this Agreement.

8.4 **ASX Listing**

The Parties acknowledge that the Vendor is a company listed on ASX and accordingly is required to make certain disclosures in the circumstances set out in the ASX Listing Rules.

9. RESTRICTIONS AGAINST COMPETITION

9.1 **Representations by Vendor**

The Vendor represents to the Purchaser that, other than their interest in the Business, they do not have any interest in any business or person that:

(a) supplies products or services or undertakes operations the same as or similar to the Business;

(b) is directly or indirectly entitled to any business which is in any way similar to the Business; or

(c) could be reasonably regarded as a market competitor of the Business.

9.2 **Restraint of Trade**

The Vendor agrees with the Purchaser that, during the Restraint Period and within the Restraint Area, they will not, without the prior written consent of the Purchaser, directly or indirectly:

(a) engage in or be concerned or interested directly or indirectly in any business or person that:

(i) supplies products or services or undertakes operations which are the same as or similar to the Business;

(ii) is directly or indirectly entitled to any business which is in any way similar to the Business; or

(iii) could be reasonably regarded as a market competitor of the Business;

(b) solicit, canvass, induce or encourage any person who was at any time during the six month period ending on the Settlement Date a director, employee or agent of the Company to leave the employment or agency of the Company;

(c) solicit, canvass, approach or accept any approach from any person who was at any time during the six month period ending on the Settlement Date a customer of the Company with a view to obtaining the custom of any such person in a business which is the same or similar to the Business; or

(d) interfere with the relationship between the Company and its clients, employees or suppliers.

9.3 **Application of Restraint of Trade**

The agreement by the Vendor in clause 9.2 applies to it acting:

(a) either alone or in partnership or association with another person;

(b) as principal, agent, representative, director, officer or employee;

(c) as member, shareholder, debenture holder, noteholder or holder of any other security; or

(d) as trustee of or as a consultant or adviser to any person.

9.4 **Interpretation**

In this clause 9:

(a) **Restraint Area** means:

(i) Sydney;

(ii) Sydney, Adelaide, Melbourne, Brisbane, Perth, Canberra;

(iii) New South Wales, South Australia, Victoria, Queensland, New South Wales and the Australian Capital Territory;

(iv) Australia; and

(v) the world; and

(b) **Restraint Period** means:

(i) the period of 6 months from the Settlement Date;

(ii) the period of 1 year from the Settlement Date; and

(iii) the period of 2 years from the Settlement Date.

9.5 **Operation**

Clauses 9.2, 9.3 and 9.4 have effect as comprising each of the separate provisions which result from each combination of a capacity referred to in clause 9.3, an area and period referred to in clause 9.4 and a category of conduct referred to in clause 9.2. Each of these separate provisions operates concurrently and independently. If any separate provision is unenforceable, illegal or void, that provision is severed and the other separate provisions remain in force.

9.6 Acknowledgment by Vendor

The Vendor acknowledges and agrees that each of the restraints imposed upon it under this clause 9 are fair and reasonable and are no greater than is reasonably necessary to protect the Purchaser.

10. DEFAULT

If either of the Parties (**Defaulting Party**) shall make default in the due observance or performance of any of its obligations under this Agreement the observance or performance of which is or becomes essential and such default shall continue for 7 days after the receipt of a notice in writing from:

(a) the Purchaser where the Defaulting Party is the Vendor; or

(b) the Vendor where the Defaulting Party is the Purchaser,

(**Non Defaulting Party**) to remedy the default then the Non Defaulting Party may, without further notice to the Defaulting Party:

(a) rescind this Agreement and be entitled to such damages as to which the Non Defaulting Party would be entitled at common law or in equity; and/or

(b) sue the Defaulting Party for specific performance.

11. NOTICES

11.1 Notices in writing

Each notice authorised or required to be given to a Party shall be in writing and may be delivered personally or sent by facsimile or properly addressed and prepaid mail and in each case addressed to the Party at its address set out in clause 11.2, or as the case may be to such other address as it may from time to time notify to the other Parties pursuant to clause 11.3.

11.2 Initial address of Parties

The initial address of the Parties shall be as follows:

In the case of the Purchaser:

59 Sunnyside Crescent
CASTLECRAG NSW 2068
Facsimile: INT + (61 2) 9339 0411
Attention: Dr Allan Shell

In the case of the Vendor:

213 Brisbane Terrace
GOODNA QLD 4300
Facsimile: INT + (61 7) 3381 9637
Attention: The Company Secretary

11.3 Change of Address

Each Party may from time to time change its address by giving notice pursuant to clause 11.1 to the other Parties.

11.4 Receipt of notice

Any notice given pursuant to clause 11.1 will be conclusively deemed to have been received:

(a) in the case of personal delivery, on the actual day of delivery if delivered prior to 5:00pm (EST) on a Business Day or on the next Business Day if delivered after 5:00pm (EST) on a Business Day or on a day other than a Business Day;

(b) if sent by mail, on the second clear Business Day after the day of posting; or

(c) if sent by facsimile, on the day after the facsimile was sent by clear transmission.

12. GST LIABILITY

(a) Notwithstanding any provision in this Agreement, this clause 12 covers the GST liabilities of the parties in relation to a Taxable Supply made by one Party under this Agreement (the **Provider**) to another Party under this Agreement (the **Recipient**).

(b) The Recipient must pay to the Provider the amount equal to the amount of any GST the Provider is liable to pay on any Taxable Supply made by the Provider under this Agreement (**Provider's Taxable Supply**).

(c) The Recipient must pay the Provider the amount in respect of GST the Recipient is liable to pay on each Provider's Taxable Supply at the same time and in the same manner as the Recipient is obliged to pay for the Provider's Taxable Supply provided that the Recipient may withhold payment of any amount in respect of GST until the Provider issues the Recipient with a valid Invoice covering the relevant Taxable Supply.

(d) Unless specific reference is made, the price for each Provider's Taxable Supply provided for by this Agreement does not include GST.

13. NON-ASSIGNMENT

No Party may assign any or all of its rights and obligations under this Agreement to any person except with the prior written consent of the other Parties which consent shall not unreasonably be withheld.

14. FURTHER ASSURANCE

Each Party shall sign, execute and do all deeds, acts, documents and things as may reasonably be required by the other Parties to effectively carry out and give effect to the terms and intentions of this Agreement.

15. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the law from time to time in the State of New South Wales and the Parties agree to submit to the non-exclusive jurisdiction of the courts of New South Wales and the courts which hear appeals therefrom.

6. VARIATION

No modification or alteration of the terms of this Agreement shall be binding unless made in writing dated subsequent to the date of this Agreement and duly executed by the Parties.

7. COSTS

7.1 Stamp Duty

All stamp duty assessed on or in respect of this Agreement or any document or transaction contemplated by this Agreement shall be paid 100% by the Purchaser.

7.2 Legal Costs

Each Party shall bear their own legal costs of and incidental to the preparation, negotiation and execution of this Agreement.

8. MISCELLANEOUS

8.1 Enforcement of Provisions

If any provision of this Agreement is invalid and not enforceable in accordance with its terms, all other provisions which are self-sustaining and capable of separate enforcement without regard to the invalid provision, shall be and continue to be valid and forceful in accordance with their terms.

8.2 Sole Understanding

This Agreement shall constitute the sole understanding of the Parties with respect to the subject matter and replaces all other agreements with respect thereto.

8.3 Counterparts

This Agreement may be executed in any number of counterparts (including by way of facsimile) each of which shall be deemed for all purposes to be an original and all such counterparts taken together shall be deemed to constitute one and the same instrument.

8.4 Time

Time shall be of the essence in this Agreement in all respects.

XECUTED by the Parties as an Agreement.

XECUTED BY)
CARDIA HEALTHCARE PTY LTD)
CN 001 869 843)
n accordance with the Corporations Act:)

Director

~~Director~~/Secretary

XECUTED BY)
MEDICAL MONITORS LIMITED)
CN 009 161 522)
n accordance with the Corporations Act:)

Director

~~Director~~/Secretary

CHEDULE 1 - WARRANTIES

Share capital

(a) **(Entire issued capital)**: The Company Shares comprise 100% of the issued share capital of the Company. and further Shares include 19,364,290 shares in Leadpi Ltd

(b) **(Shares fully paid)**: The Company Shares are fully paid up and have been duly issued and allotted. (being approx 30% of total shares → noted on Companies House report 2007) & as

(c) **(No right to subscribe)**: No person has any right or option to subscribe for or otherwise to acquire any further shares in the Company.

(d) **(No options)**: There are no outstanding options, contracts, calls, first refusals, commitments, rights or demands of any kind relating to the issued or unissued capital of the Company.

(e) **(No other allotments)**: The Company is not under any obligation to allot any shares to any person or persons, or otherwise to alter the structure of any part of its unissued share capital, and the Company is not under any obligation to give any option over any part of its unissued share capital nor has the Company offered to do any of the matters stated in this sub-paragraph.

(f) **(Vendor is owner)**: The Vendor is the registered holder and beneficial owner of 100% of the Company Shares, which are free of any Encumbrance.

(g) **(Right and power to sell)**: The Vendor has complete and unrestricted power and right to sell, assign and transfer the Company Shares to the Purchaser except for the consent of the directors of the Company to the registration of the transfers of the Company Shares.

2. Effect of this Agreement

The entry into and performance of this Agreement and all documents executed pursuant to this Agreement:

(a) will not relieve any person of any contractual or other obligation to the Company or entitle any person to re-negotiate the terms or conditions of any such obligation;

(b) do not and will not conflict with, violate or result in a breach by the Company or the occurrence of an event of default under any agreement or any law, undertaking to or judgment or Court order;

(c) will not result in any indebtedness, present or future, of the Company becoming due or capable or being declared due and payable before the stated maturity date;

(d) will not give rise to any contractual or other obligation of the Company to any person or entitle any person to require the performance of or compliance with any existing contractual or other obligation of the Company; and

(e) will not entitle any person with whom the Company has a contract or arrangement of any kind to terminate that contract or arrangement or to impose less favourable terms on the Company.

The Company

The Company:

(a) is duly registered, has full corporate power to own its assets and Business and to carry on its Business as now conducted; and

(b) has done everything necessary to do business lawfully in all jurisdictions in which its Business is carried on.

The Last Accounts

The Last Accounts:

(a) disclose a true and fair view of the state of the affairs, financial position and assets and liabilities of the Company as at the Last Accounts Balance Date, and the income, expenses and results of the operations of the Company for the year ended on that date;

(b) include all such reserves and provisions for Tax as are adequate to cover all Tax liabilities (whether or not assessed and whether actual, contingent, deferred or otherwise) of the Company up to the Last Accounts Balance Date;

(c) contain adequate provisions in respect of all other liabilities (whether actual, contingent, deferred or otherwise) of the Company as at the Last Accounts Balance Date and proper disclosure (in note form) of any contingent or other liabilities not included or provided therein; and

(d) were prepared:

   (i) in accordance with the Corporations Act and Australian accounting standards applied on a consistent basis and without making any revaluation of assets;

   (ii) in the manner described in the notes to them and the accompanying auditor's opinion; and

   (iii) on a consistent basis with the audited accounts for the previous financial year.

Period Since Last Accounts Balance Date

(a) **(No material adverse change)**: Since the Last Accounts Balance Date there has not been:

   (i) any material adverse change to the financial condition of or in the trading operations of the Company from that shown in the Last Accounts; or

   (ii) any material change in the nature, amount, valuation or basis of valuation of the assets or in the nature or amount of any liabilities of the Company.

(b) **(No material effect on operations)**: Since the Last Accounts Balance Date there has not arisen any item, transaction or event of a material or unusual nature likely to affect substantially the operations or results or state of affairs of the Company.

(c) **(Business carried on in normal course)**: Since the Last Accounts Balance Date the Company has carried on its Business in the ordinary regular and normal course, no asset has been acquired or disposed of except in the ordinary course of business, no liability has been incurred except in the ordinary course of business, and no contingent liability has been incurred by the Company.

(d) **(No debts released or settled)**: None of the debts shown in the Last Accounts have been released or settled for an amount less than that reflected for such debts in the Last Accounts, and all such debts owing to and accounts receivable of the Company are now and on Settlement will be good and collectable in the amount disclosed in the Last Accounts (other than for any allowance in the Last Accounts in respect of doubtful debts). All such accounts receivable and debts are not and will not be subject to any counterclaim or set-off except for moneys payable by persons also shown as creditors of the Company in the amounts shown in the Last Accounts (as such amounts may have been affected by transactions in the ordinary course of business since the Last Accounts Balance Date).

(e) **(Dividends)**: All dividends declared by the Company have been properly and validly declared and no dividends have been declared by the Company since the Last Accounts Balance Date.

(f) **(No Event of Insolvency)**: Since the Last Accounts Balance Date no Event of Insolvency has occurred in respect of the Company nor has any act occurred or any omission been made which may result in an Event of Insolvency occurring in respect of the Company.

(g) **(No Prescribed Occurrence)**: Since the Last Accounts Balance Date no Prescribed Occurrence has occurred in respect of the Company nor has any act occurred or any omission been made which may result in a Prescribed Occurrence occurring in respect of the Company.

(h) **(No additional remuneration)**: Since the Last Accounts Balance Date there has not been material change in the remuneration or benefits paid to or given or expected by the Officers or employees of the Company.

Records and systems

(Records properly kept): All books of accounts and other records of any kind of the Company:

(a) have been fully, properly and accurately kept on a consistent basis and completed in accordance with proper business and accounting practices and all applicable Statutes;

(b) have not had any material records or information removed from them;

(c) do not contain or reflect any material inaccuracies or discrepancies;

(d) give and reflect a true and fair view of the trading transactions and the financial and contractual position of the Company and of its assets and liabilities; and

(e) are in the possession of the Company.

Contracts and Commitments

(a) (**Contracts binding**): Every contract, instrument or other commitment to which the Company is a party (including all Business Contracts) is valid and binding according to its terms and, without prejudice to any other warranty, no party to any such commitment is in material default under the terms of that commitment.

(b) (**No contracts outside ordinary course of business**): The Company is not party to any contract or commitment entered into which is in existence and:

   (i) is outside the ordinary course of business;

   (ii) even if entered into in the ordinary course of business, involves or is likely to involve obligations or liabilities which by reason of their magnitude or nature ought reasonably to be made known to an intending purchaser of the Company Shares;

   (iii) is not at arm's length or not on normal commercial terms; or

   (iv) is long term, substantial or onerous.

(c) (**No sums owing**): No sums are now owing or will at Settlement be owing by the Company to the Vendor or to any company or person related to the Vendor.

(d) (**No guarantees given**): The Company has not guaranteed or indemnified and is not directly or indirectly obliged in any way to guarantee, assume or provide funds to satisfy any obligation of any person, and has not given a letter of comfort to any person.

(e) (**No contract by unilateral act**): No offer, tender, quotation or the like given or made by the Company is capable of giving rise to a contract merely by any unilateral act of a third party, other than in the ordinary course of business.

(f) (**Capital expenditure**): There are no outstanding commitments of the Company for capital expenditure other than replacements and normal purchases of plant and equipment in the ordinary course of business.

(g) (**No foreign exchange exposure**): There are no foreign exchange contracts binding the Company and the Company has no foreign exchange exposures.

(h) (**No finder's fee**): No-one is entitled to receive from the Company any finder's fee, brokerage or other commission or benefit in connection with the sale and purchase contemplated by this Agreement.

(i) (**No profit sharing**): The Company is not party to any agreement, arrangement or understanding where it is or will be bound to share profits or waive or abandon any rights.

(j) **(No other payments)**: The Company is not subject to any agreement, arrangement or understanding that involves directly or indirectly any offer or payment to any government official or any other third party to influence him or to assist in the obtaining or retaining of business, nor involves any offer or payment to any other person while knowing or having reason to know that all or a portion of the money offered or any such payment would be made available or paid to any government official or third party for the same purpose.

(k) **(Securities enforceable)**: All security (including any guarantee or indemnity) granted in favour of the Company is valid and enforceable by that member against the grantor in accordance with the terms of that security.

Permits and compliance with Statutes

(a) **(All Permits obtained)**: The Company has all permits, licences, authorities, registrations and approvals necessary for properly carrying on its Business and for the use of the Premises (**Permits**).

(b) **(Permanent and unconditional)**: All Permits have been obtained on a permanent and unconditional basis, or if the Permits are not permanent and unconditional, the Vendor possess all documents necessary to permit the Purchaser to renew or transfer the Permits.

(c) **(No revocation or variation)**: There is no circumstance or fact which may:

(i) result in the revocation or variation in any material respect of any of the Permits;

(ii) hinder or prevent the transfer or grant of such Permits to the Purchaser; or

(iii) prejudice the continuance or renewal of such Permits in favour of the Purchaser.

(d) **(Reports and returns)**: All reports, returns, payments and other information required to be made or given in respect of any Permits have been duly made or given.

(e) **(Compliance with Statutes)**: The Business is conducted in compliance with all Statutes and the Company has not received any notice (whether express or oral) of any allegation of any contravention of any Statute by the Company.

Corporate matters

(a) **(Assets owned by the Company)**: The Company is the legal and beneficial owner of all of its Assets, which are free of any Encumbrance, except as disclosed in the Disclosure Material. -own

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(b) **(Compliance with contracts)**: The Company has complied in all respects with: Sd

(i) its Constitution;

(ii) any instrument to which it is a party or by which it is bound, including all Business Contracts; and

(iii) all legal requirements and all judgments, orders, injunctions and requirements of any Court or Government Authority,

and there has not occurred any event which, with the passing of time or giving of notice, would constitute a material breach or default of any of the above.

(c) **(Capacity of the Company)**: The Company:

(i) will not at Settlement, hold or have agreed to acquire or take up any shares in the capital of any company;

(ii) is not a member of any partnership, joint venture or unincorporated association;

(iii) is not a trustee or manager of any trust estate or fund; and

(iv) does not have a permanent establishment (as that expression is defined in the Tax Act) outside Australia.

(d) **(No powers of attorney)**: There are no powers of attorney given by the Company in favour of any person which are or may come to be in force in relation to the Business or the Company.

(e) **(Officers duly appointed)**: All of the directors and secretaries of the Company have been duly appointed in accordance with the Corporations Act.

(f) **(No name changes)**: The Vendor will not permit the name of the Company to be changed before Settlement and have not permitted and will not permit before Settlement the Company to consent to the adoption by any other person or company of a name similar to the Company's name.

(g) **(Plant and equipment)**: All plant, equipment and vehicles owned by the Company are in good order and repair except for fair wear and tear.

(h) **(All duties and taxes paid)**: All stamp duties and other taxes for which the Company is primarily liable in respect of every deed, agreement or other document to which the Company is or has been a party have been duly paid or adequately provided for.

(i) **(Constitution)**: The Constitution of the Company produced to the Purchaser prior to the Execution Date is a true and correct copy of the Constitution of the Company and will remain so until and as at Settlement.

(j) **(Filings)**: The Company has filed all annual returns, resolutions, particulars, other forms, returns and documents as and where required to be filed or registered under the Corporations Act, such documents were accurate in all material respects, and the Company is not liable to be struck off the register of companies.

0. **Premises**

(a) **(List of all Premises)**: Schedule 3 accurately describes all the premises owned, leased or occupied by the Company.

(b) **(Exclusive occupation)**: The Company has exclusive peaceful and undisturbed occupation of the Premises free of any Encumbrance or third party right.

(c) **(Compliance with obligations)**: The Company has properly performed and observed all obligations affecting the Premises, whether set out in the Leases or in any Statutes.

(d) **(Leases valid and binding)**: Each Lease is valid and binding on the parties and enforceable in accordance with its terms and the Company named as lessee of any Lease has complied with all its obligations under each relevant Lease.

(e) **(True copies)**: The Vendor has given the Purchaser true copies of each of the Leases before the Execution Date. Those copies set out the full terms of those Leases.

(f) **(Disclosure of other lease commitments)**: The Vendor has disclosed to the Purchaser before the Execution Date full and correct details of all commitments (whether legally binding or otherwise) of the Company to take lease of premises.

(g) **(No disputes)**: There is no current material dispute relating to the Premises or their use.

(h) **(No notices)**: The Company has not received any notice from any Government Authority (nor is the Vendor aware of any pending notice):

  (i) requiring any work to be done or money expended on any of the Premises; or

  (ii) of a proposed resumption, compulsory acquisition or any other matter affecting any of the Premises.

(i) **(State of Premises)**: The Premises:

  (i) are used for purposes permitted under relevant planning or zoning schemes and in compliance with all Statutes;

  (ii) are not subject to any temporary or conditional planning permission;

  (iii) are not subject to any restrictive covenant, exception or reservation which adversely affects the ability to carry on the Business at those Premises;

  (iv) are suitable for the continued conduct of the Business as presently conducted at those Premises; and

  (v) its improvements are, having regard to their age, in such condition and state of repair as to be substantially fit for the purpose for which they are currently used.

1. **Environmental compliance**

(a) **(No environmental contamination)**: The Premises are free of all environmental contamination, including without limitation, any patent or latent environmental contamination of the atmosphere, air, soil, sub-soil, ground water or surface waters within or adjacent to such Premises.

(b) **(No violation of environmental laws)**: No hazardous materials and no other materials intended for use or generated in the Business have been or are used, stored, treated or otherwise disposed of by the Company in violation of applicable Statutes.

(c) **(Compliance with environmental laws)**: All hazardous materials removed or emitted from the Premises were and are documented, transported and disposed of in compliance with all applicable Statutes.

(d) **(No materials causing contamination)**: No materials, including without limitation, effluence leachate, emissions or hazardous materials generated on or emitted from any of the Premises have caused or will cause, in whole or in part, any environmental contamination.

(e) **(No agreement)**: There is no agreement or consent order to which the Company is a party in relation to any environmental matter, and no such agreement or order is necessary for the continued compliance of the Company with applicable Statutes.

(f) **(Orders)**: All orders issued by any Government Authority concerning environmental matters on the Premises have been fully complied with and cleared.

(g) **(Notices)**: The Company has not received any written communications which have not been fully complied with and cleared concerning alleged violations of environmental legislation or claims with respect to environmental matters with respect to the Business or the Company.

(h) **(Business does not constitute nuisance)**: The conduct of the Business does not constitute a nuisance, nor has any claim been made in respect of the use or operation of the Premises by any adjoining landowner or other party.

2. **Assets and Business Contracts**

(a) **(Assets Owned by the Company)**: All the fixed assets, current assets and other assets and property used in connection with the Business are: all en in the are d in S

(i) accurately described in full in Schedule 2;

(ii) legally and beneficially owned by the Company free of Encumbrances (and, in particular, no such assets are the subject of any hire purchase agreement or credit purchase agreement or any agreement for payment of deferred terms); and

(iii) not used by any other person.

(b) **(Business Contracts)**: All Business Contracts have been fully disclosed to the Purchaser prior to the Execution Date and Schedule 6 contains a complete list of all Business Contracts to which the Company is a party and which are, in whole or in part, executory as at the Execution Date.

3. **Intellectual Property**

(a) **(List in Schedule 4)**: Part A of Schedule 4 accurately describes:

(i) all registered and unregistered business names and trade marks;

(ii) all registered patents and designs; and

(iii) all applications for registration of trade marks, patents and designs which are owned or used at any time by the Company in connection with its Business.

(b) **(Right and title)**: The Company:

(i) owns all right, title and interest in and to the Intellectual Property Rights;

(ii) has not licensed any of the Intellectual Property Rights; and

(iii) has not assigned or disposed of any right, title or interest in the Intellectual Property Rights.

(c) **(Legally and beneficially owned)**: The Intellectual Property Rights are:

(i) legally and beneficially vested in the Company;

(ii) not being presently infringed, nor are they the subject of any dispute, litigation or expungement application (whether threatened or otherwise); and

(iii) not subject to any licence or authority in favour of any third party, and the exercise of them does not infringe the rights of any other parties.

(d) **(Confidential Information)**: There has not been any misuse or unauthorised disclosure of any Confidential Information.

(e) **(Intellectual Property Licences)**: Part B of Schedule 4 accurately describes the Intellectual Property Licences and each is valid, binding and enforceable in accordance with its terms. The Company has complied at all times with the terms of the Intellectual Property Licences, and no act or omission has occurred which would entitle a licensor under an Intellectual Property Licence to terminate that licence.

(f) **(No use by other persons)**: The Vendor is not aware of any use by any other person of any business name or trade mark owned or used by the Company.

(g) **(No infringement of other right)**: None of the Intellectual Property Rights or other processes now or at any time employed, or the products now or at any time produced by the Company, constitutes or may constitute an unauthorised infringement of any intellectual property rights of any other person.

4. **Absence of Litigation**

(a) **(No current litigation)**: The Company and any person for whom it may be vicariously liable is not engaged in any capacity in any prosecution, litigation, arbitration proceedings or administrative or governmental challenge or investigation (**Litigation**).

(b) **(No pending Litigation)**: There is no Litigation pending, threatened, anticipated or contemplated against the Company or any person for whom the Company may be vicariously liable.

(c) **(No facts giving rise to Litigation)**: No fact or circumstance exists which may give rise to any Litigation which could materially affect the ability of the Company to continue to operate its Business.

(d) **(No outstanding judgments)**: There are no unsatisfied or outstanding judgments, orders, decrees, stipulations, or notices affecting the Company or any person for whom the Company may be vicariously liable.

5. Insurance

(a) **(Disclosed in Disclosure Material)**: Prior to the Execution Date, the Vendor has given full disclosure to the Purchaser of all contracts of insurance and indemnity in force in respect of the Business, property and assets of the Company (**Company Insurances**).

(b) **(Insurance contracts still valid)**: Each of the Company Insurances is in force and there is no fact or circumstance known to the Vendor which would lead to any of them being prejudiced or which would permit an insurer to refuse or reduce a Claim or materially increase the premiums payable under the policies. None of the Company Insurances will be terminated or cease to have effect as a result of the transactions contemplated by this Agreement.

(c) **(Assets adequately insured)**: The assets of the Company are adequately insured in respect of the risks to which they are subject (including loss or damage by fire, theft, storm and tempest) in such amounts as accord with sound business principles and such insurances will not expire before the Settlement Date.

(d) **(Other insurance)**: The Company is adequately insured against public liability, product liability, loss of profits and all other risks in such amounts as accord with sound business principles, and such insurances will not expire before the Settlement Date.

(e) **(Insurance for employees and others)**: Any Claim which might be made against the Company by an employee or third party in respect of any accident or injury is fully covered by insurance.

(f) **(Premiums paid)**: All premiums in respect of the Company Insurances will have been paid before the Settlement Date.

(g) **(No claims remain unpaid)**: There are no material Claims made but unpaid under the Company Insurances or any insurance policies previously held, there are no material threatened or pending Claims, and there are no events or circumstances which may give rise to any such Claim.

(h) **(No failure to claim)**: The Company has not failed to give any notice or to present any Claim with respect to the Business under any existing insurance policy.

(i) **(No outstanding requirements or recommendations)**: The Company has not been notified by any insurer that it is required or that it is advisable for it to carry out any maintenance, repairs or other work in relation to any assets of the Business or on the Premises.

(j) **(Insurance only relevant to Business)**: The insurances effected by the Company do not cover or otherwise relate to any assets or premises other than those owned and/or used by the Company or any risks or liabilities other than those which may be incurred by the Company.

5. **Taxation**

(a) **(Compliance)**: The Company has duly complied with all obligations imposed by the Tax Act.

(b) **(No dispute)**: The Company has not made a false or misleading statement to a taxation officer within the meaning of the Tax Act in relation to any income or franking year and there is no unresolved dispute with any Revenue Authority involving the Company.

(c) **(Other tax returns filed)**: All necessary information, declarations, certificates, notices, returns and any other required lodgements in respect of Taxes, other than Tax under the Tax Act, have been properly and duly submitted by the Company to all relevant Revenue Authorities in respect of Tax for all relevant periods up to the Execution Date and will continue to be submitted until the Settlement Date. The Company has not made a false or misleading statement in relation thereto and there is no unresolved dispute with any Revenue Authority involving the Company, nor are there any facts or circumstances which might give rise to any dispute.

(d) **(All other taxes assessed and paid)**: All Taxes, other than Tax under the Tax Act, which have been assessed or imposed or which are deemed to have been assessed or imposed or which are lawfully assessable or payable by or upon the Company and which were due and payable as at the Last Accounts Balance Date have been paid or remitted to the relevant Revenue Authority by the Company.

(e) **(No penalty or fine paid or payable)**: The Company has not in the past five years paid or become liable to pay, nor are there any circumstances by reason of which the Company is likely to become liable to pay, any penalty, fine or interest under the Tax Act or with respect to any Tax under that or other legislation.

(f) **(No tax audit or investigation conducted)**: The Company has not in the past five years suffered any investigation, audit, visit or written request for the production of information by any Revenue Authority and the Company has not been notified of and is not aware of any such proposed investigation, audit, visit or request.

(g) **(No non-arms length transactions)**: The Company has not been a party to and has not participated in any non-arm's length transaction that could be affected by the exercise of discretionary powers of the relevant Revenue Authority, including, without limitation, transactions relating to trading stock, plant and equipment, securities or assets subject to the capital gains tax provisions of the Tax Act.

(h) **(No tax avoidance)**: The Company has not been a party to and has not participated in transactions or arrangements that could give rise to the exercise by the Relevant Authority of its powers under the Tax Act in relation to losses and outgoings incurred under tax avoidance schemes, or in relation to international agreements or schemes to reduce income tax, or any other discretionary powers of the relevant Revenue Authority under the Tax Act by virtue of which transactions or arrangements entered into by the Company may be re-opened, revised or given an interpretation different from that adopted by the Company.

(i) **(Inter-company dividends)**: There have not been and are no circumstances in relation to the payment of any dividend by the Company to any person that have given rise to or could give rise to the denial in whole or in part of any inter-company dividend tax rebate available under the Tax Act.

(j) **(Tax file numbers)**: The Company has duly complied with all obligations imposed under the Tax Act in relation to the quotation of tax file numbers by employees of the Company and the deduction by the Company of tax instalments, including the guidelines under applicable privacy legislation; the Company has not committed any offence in relation to the collection, recording, use or disclosure of tax file numbers.

(k) **(Income tax returns filed)**: The Company has filed all returns under the Tax Act for the income year, franking year and tax periods covered by the Last Accounts and for all previous years, together with any applicable certificates, notices, declarations and any other lodgements whether mandatory or otherwise in the interests of the Company; all such returns were correct and on a proper basis, and no dispute exists in relation to any of them, nor are there any facts or circumstances which might give rise to any disputes.

(l) **(All income tax assessed and paid)**: All Tax under the Tax Act for the income year, franking year and tax periods covered by the Last Accounts and all prior income years, franking years and tax periods which have been assessed or imposed or which is deemed to have been assessed or imposed or which is lawfully assessable or payable by or upon the Company has been duly assessed and paid.

(m) **(Franking accounts properly maintained)**: In relation to the Company, all credits and debits to any franking account maintained by each member have been duly and properly recorded in accordance with the Tax Act giving rise to a franking account balance in conformity with the Tax Act, and there are no existing or pending statutory franking debits in relation to dividend streaming arrangements, on-market share buy-back purchases or otherwise.

(n) **(Franking debits)**: The Company has not lodged an application for the determination of an estimated franking debit and no notice has been received or is expected at the Execution Date that would give rise to a franking debit based on an estimated debit determination under the Tax Act.

(o) **(Proper records kept)**: All documents and records have been kept and maintained in compliance with the Tax Act including, without limitation, all records required in relation to the franking account balance of the Company and records necessary to permit the ascertainment of all information required in relation to capital gains and capital losses including net capital gains and net capital losses under the Tax Act and records necessary to attribute the goods and services tax paid and payable on taxable supplies to a tax period and to attribute all creditable acquisitions to a tax period and to claim an input tax credit, in respect of all creditable acquisitions, for the purposes of the Tax Act.

(p) **(Price adjusting for GST)**: All contracts for making taxable supplies entered into by the Company provide for the cost of the goods and services tax liability in respect of such supplies to be included in the price or other consideration for the supply.

Staff and superannuation

(a) **(Details of employees)**: The Vendor has disclosed to the Purchaser in writing before the Execution Date full and correct details of:

(i) the employees of the Company and the employment conditions of all employees of the Company; and

(ii) all contracts of service or for services and letters of appointment in respect of any employees of, or consultants to, the Company which cannot be terminated on less than 2 months' notice.

(b) **(Contracts enforceable)**: Each of the contracts entered into by the Company with employees or consultants is enforceable against the parties to it and there is no party in breach of, or in default under, any such contract.

(c) **(No change since Last Accounts Balance Date)**: Since the Last Accounts Balance Date the Company has not paid any bonuses or increases in salary (other than normal increases to employees in the ordinary course of business or as imposed by industrial awards) or otherwise altered the remuneration, emoluments or benefits or other conditions of employment of any Officers or employees of the Company.

(d) **(No collective agreements)**: The Company is not party to any collective agreement or enterprise bargaining agreement or other agreement or arrangement nor is it involved in or likely to be involved in any industrial dispute with any trade union or other organisation of employees.

(e) **(No termination of employees)**: No present Officer, employee, agent or consultant of or to the Company has given or received notice terminating his employment or engagement and no Officer, employee, agent or consultant is entitled to or intends or is likely as a result of this Agreement to terminate his employment or engagement with the Company.

(f) **(No changes to directors' benefits)**: Since the Last Accounts Balance Date the Company has not paid any remuneration or fees to its directors other than normal remuneration to executive directors.

(g) **(Compliance with awards and agreements)**: In respect of its employees and former employees the Company has complied with all applicable industrial awards and agreements and all statutory requirements.

(h) **(Compliance with Statutes)**: The Company has complied in all material respects with all applicable Statutes directed at:

(i) avoiding all forms of discrimination with respect to employees;

(ii) providing long service leave benefits to employees;

(iii) providing training and career assistance to employees; and

(iv) providing for affirmative action programmes,

and there are no outstanding claims against or payments due from the Company under such Statutes.

(i) **(Compliance with Superannuation Commitments)**: The Company has complied, and until the Settlement Date will continue to comply, with all of its Superannuation Commitments.

(j) **(No increase to Superannuation Commitments)**: The Company will not increase its Superannuation Commitments between the date of this Agreement and the Settlement Date without the written consent of the Purchaser.

(k) **(No other pension benefits)**: The Company is not under any present legal liability or voluntary commitment (apart from a Superannuation Commitment) to pay to any person any pension, superannuation allowance, retirement gratuity or like benefit (other than legal liability to pay long service leave or annual holiday pay) or any damages or compensation for loss of office or employment or for unfair dismissal.

(l) **(No other funds)**: There are no superannuation trusts or funds of which the Company is a trustee, or to which the Company is required to make contributions (apart from a Superannuation Commitment).

(m) **(No superannuation guarantee charge payable)**: The Company has duly made all necessary payments in order to avoid incurring any liability to pay the training guarantee levy under the Training Guarantee Act 1990 (Cth).

Material disclosure

(a) **(All material information)**: Any information known or which should be known to the Vendor concerning the Company which might reasonably be regarded as material to a purchaser for value of the Company Shares has been disclosed in writing to the Purchaser.

(b) **(True, complete and accurate)**: All information concerning the Company or concerning the Company Shares supplied to the Purchaser or its agents, employees or advisers by the Vendor or their agents, employees or advisers is true, complete and accurate in all respects, and is not misleading or deceptive.

(c) **(No material error or misstatement)**: No representation, warranty or document made or furnished by the Vendor in connection with this

Agreement contains any material error or misstatement nor does it omit to state any material fact.

(d) **(No adverse acts)**: Nothing has been done or omitted to be done in relation to the Company Shares or the Company which might materially adversely affect the interests of the Purchaser as an intending purchaser of the Company Shares.

(e) **(No competing interests)**: The Vendor does not have any interest in any company or business which has a close trading relationship with or which is in competition with a business conducted by the Company.

(f) **(Forecasts and projections)**: All the forecasts and projections (if any) in the Disclosure Material:

(i) were made after due and careful consideration on the part of the author;

(ii) are based on information which the author reasonably believed was reliable; and

(iii) are fair and reasonable in the circumstances prevailing at the time such forecasts and projections were made and in light of the assumptions made which were in turn fair and reasonable.

The Vendor is not aware of any fact which might have a material adverse effect on any such assumptions or which might necessitate a material adverse revision to any of the forecasts or projections.

Appendix 4

Appendix	4
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Heart Monitors Pty Ltd
a wholly owned Subsidiary of
Medical Monitors Limited

Detailed Profit and Loss Statements

for the Last Four Years

	1-Jul-03 to 30-Jun-04	1-Jul-04 to 30-Jun-05	1-Jul-05 to 30-Jun-06	1-Jul-06 to 30-Jun-07	*Refer*
Sales/Income					
Medicare Fees	122,710	131,040	127,310	122,262	
Veterans Affairs	3,327	5,436	5,169	1,750	
Consultancy Fees	391	0	480	0	
Systems Fees	330	120	255	0	
Total Sales	126,759	136,596	133,214	124,012	
Cost of Sales					
Disposables - COGS	11,026	9,052	9,562	8,300	
Total Cost of Sales	11,026	9,052	9,562	8,300	
Gross Profit / (Loss) on Trading	115,733	127,545	123,652	115,712	
Gross Profit % on Sales	91.30%	93.37%	92.82%	93.31%	
Other Income					
Interest - Term Deposit	0	0	0	0	
Interest - Chq A/C	5	4	2	0	
Profit on Sale of Assets	0	0	0	0	
Total Other Income	5	4	2	0	
Total Gross Profit (Loss) (Carried Forward)	**$115,739**	**$127,548**	**$123,654**	**$115,712**	

Heart Monitors Pty Ltd
a wholly owned Subsidiary of
Medical Monitors Limited

Detailed Profit and Loss Statements

for the Last Four Years

	1-Jul-03 to 30-Jun-04	1-Jul-04 to 30-Jun-05	1-Jul-05 to 30-Jun-06	1-Jul-06 to 30-Jun-07	Refer
Total Gross Profit (Loss) (Brought Forward)	**$115,739**	**$127,548**	**$123,654**	**$115,712**	*Appendix 4 Page 1*
Less Expenses					
Advertising	0	0	0	10,432	
Admin Fees	0	0	250	0	
Amortisation Expense	592,960	592,960	296,480	0	
Amortisation Expense - Leases	64,896	34,074	17,775	0	
Bank Charges	200	189	282	282	
Consultancy Fees	1,818	0	0	22,138	
Consultancy Fees - No GST	32,000	36,500	37,200	44,700	
Computer Exp	0	150	0	25	
Conference Expenses	0	0	0	1,199	
Depreciation	46,642	45,403	23,111	0	
Disposables	279	502	278	0	
Filing Fees	0	0	212	0	
Fees & Permits	265	197	0	689	
Freight / Cartage	110	114	0	784	
Storage	0	0	0	1,207	
General	262	0	0	0	
Impairment of Intellectual Property	0	0	0	1,178,314	
Interest Payable	52,497	(24,575)	6,277	2	
Internet Services	877	617	792	959	
Legal Fees	0	0	0	1,917	
Leasing Expense - Computer	505	505	(3,513)	1,612	
Lease Heart Monitors	0	0	5,142	0	
Office Expense	0	0	0	389	
Postage	247	0	0	1,659	
Printing & Stationary	0	0	0	738	
Removal Costs	0	0	0	358	
Rent	500	0	0	0	
Subscriptions	0	0	0	99	
Telephone / Fax	0	0	0	6,428	
Travel	0	0	0	300	
Freight Paid	0	0	88	43	
Provision for Obsolete Stock	0	38,192	0	0	
Total Expenses	794,059	724,828	384,375	1,274,274	
Net Profit / (Loss) (Before Income Tax)	**($678,321)**	**($597,280)**	**($260,721)**	**($1,158,562)**	

Appendix 5

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited
Calculation of the

Future Maintainable Profits of the Business on a Before Interest & Tax Basis

	1-Jul-03 to 30-Jun-04	1-Jul-04 to 30-Jun-05	1-Jul-05 to 30-Jun-06	1-Jul-06 to 30-Jun-07	*Refer*
CPI (Brisbane) Previous March Qtr	*141.8*	*145.4*	*149.2*	*153.5*	*Appendix 5 Page 2*
Net Profit / (Loss) (Before Income Tax)	**($678,321)**	**($597,280)**	**($260,721)**	**($1,158,562)**	*Appendix 4 Page 2*
Adjustments to Calculate the Future Maintainable Profits of the Business, Before Interest & Tax					
Interest Income deducted	($5)	($4)	($2)	($0)	*Appendix 4 Page 1*
Amortisation of Intellectual Property added back	$592,960	$592,960	$296,480	$0	*Appendix 4 Page 2*
Consultancy Fees added back	$1,818	$0	$0	$22,138	
Impairment of Intellectual Property added back	$0	$0	$0	$1,178,314	
Interest Expense added back	$52,497	($24,575)	$6,277	$2	
Interest Component of Finance Lease Rentals added back @ 20% of Rental Amounts:					
Computer	$101	$101	($703)	$322	
Heart Monitors	$0	$0	$1,028	$0	
Legal Fees added back	$0	$0	$0	$1,917	
Removal Costs added back	$0	$0	$0	$358	
Provision for Obsolete Stock added back	$0	$38,192	$0	$0	
Net Total of Adjustments	$647,371	$606,674	$303,080	$1,203,051	
Adjusted Operating Profit, Before Interest & Tax ("EBIT")	($30,950)	$9,394	$42,358	$44,489	
Further Adjustment for CPI (Brisbane) of Previous March Quarter as compared to the March Quarter Index preceding the latest year:					
CPI Adjusted Operating Profit Before Interest & Tax ("EBIT")	($33,503)	$9,917	$43,579	$44,489	
Future Maintainable Profits - Average of 2005/06 and 2006/07 CPI Adjusted Operating Profits (Before Interest & Tax)				**$44,034**	

Consumer Price Index History
(All Groups)
(Brisbane)
From 1985 to Present
Obtained from Publications of the Australian Bureau of Statistics

Quarter	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
			[Refer Note (1)]										
March	-	74.4	81.4	87.0	92.9	100.8	105.7	107.5	109.1	110.8	115.8	119.6	121.5
June	-	75.6	82.6	88.5	95.8	102.2	105.7	107.0	109.7	111.5	116.9	120.4	121.1
September	71.3	77.6	84.0	90.2	97.6	102.8	106.1	106.9	109.9	112.5	117.9	120.6	120.7
December	72.7	79.8	85.5	92.0	99.3	105.4	107.3	108.1	110.2	113.7	118.6	120.8	121.4

Quarter	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
March	121.9	122.8	125.5	132.7	137.1	141.8	145.4	149.2	153.5	158.0			
June	122.3	123.1	126.4	134.0	138.1	141.8	146.3	150.0	156.2	160.2			
September	122.5	124.0	131.3	134.2	139.2	143.3	146.8	150.9	157.5	161.7			
December	123.0	124.1	131.6	135.8	139.9	144.2	148.0	152.1	157.3	163.4			
Annual Increase in March Quarter Index		0.74%	2.20%	5.74%	3.32%	3.43%	2.54%	2.61%	2.88%	2.93%			
Average Increase over the Last Five Years						**3.09%**	**3.45%**	**3.53%**	**2.96%**	**2.88%**			

Notes: (1) I have been unable to obtain the quarterly indices for Brisbane for the March 1989 and earlier quarters. I have therefore assumed the Weighted Average of 8 Capital Cities indices for those quarters.

Appendix 6

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited

Calculation of a Discount/Capitalisation Rate

to Apply to Earnings Before Interest & Tax
for the purpose of Calculating the Value of a Business
Based on the Capital Asset Pricing Model
"Cost of Equity" Formula

	Standard Symbol		Refer	
Risk Free Rate of Return (10 Year Commonwealth Bond Rate as at 30-Jun-07)	*rf*	6.26%		
Market Risk Premium (= Market Return Indicator, e.g. All Ordinaries less Risk Free Rate)	*MRP*	6.50%	*Note*	*1*
Published ß (Beta) or Equivalent Value for Investment in the Business	*ß*	1.13	*Appendix* *Page*	*6* *3*
Cost of Equity - Stock Market Value [rf + (MRP)ß] (After Company Tax, but Before Personal Tax, Equivalent Rate of Return Expected by Investors)		13.61%	*Note*	*2*
Add Premium for Non-negotiability of Investment in this Business as compared to Investing in the Stock Market		5.78%	*Note*	*3*
Cost of Equity for this Business - After Company Tax	*ke*	19.39%	*Note*	*4*
Company Taxation Rate	*t*	30%		

Discount Rate (Before Interest & Tax):

$$\frac{ke}{(1 - t)} = \frac{19.39\%}{(1 - t)} = \frac{19.39\%}{70.00\%} = \boxed{\mathbf{27.70\%}}$$ *Note 5*

Deduct Allowance for Future Inflation	2.88%	*Note* *& Appendix* *Page*	*6* *5* *2*
Capitalisation Rate	**24.82%**		

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of

Medical Monitors Limited
Details of the Various Components that combine to arrive at the Discount/Capitalisation Rate
used to Calculate the Value of the Business

		Refer	
Risk Free Rate	6.26%		
Market Risk Premium	6.50%	*Note*	*1*
Additional / (Reduction in) Risks for Factors listed in Beta Calculation	0.85%	*Appendix* *Page*	*6* *3*
Premium for Non-negotiability of Investment in this Business as compared to Investing in the Stock Market	5.78%	*Note*	*3*
Discount Rate Before Interest, After Company Tax but Before Personal Tax	19.39%	*Note*	*4*
Divide by (1 - Company Tax Rate)	70.00%		
Discount Rate (Before Interest & Tax)	**27.70%**	*Note*	*5*
Deduct Allowance for Future Inflation	2.88%	*Note* *& Appendix* *Page*	*6* *5* *2*
Capitalisation Rate	**24.82%**		

Notes:

1. "The Valuation of Businesses, Shares and other Equity" 4th Edition (2003), by Wayne Lonergan, at Page 157
2. "The Valuation of Businesses, Shares and other Equity" 4th Edition (2003), by Wayne Lonergan, at Pages 156 & 157
3. "The Valuation of Businesses, Shares and other Equity" 4th Edition (2003), by Wayne Lonergan, at Page 157 & Page 46 of of a seminar paper, presented by Mr Wayne Lonergan of Lonergan Edwards & Associates Ltd, to members of the Institute of Chartered Accountants in Australia in June 2004
4. "The Valuation of Businesses, Shares and Other Equity" (4th Edition) by Wayne Lonergan, at Page 166
5. Discount Rate 'A', without any debt weighting, - Page 166 of "The Valuation of Businesses, Shares and Other Equity" (4th Edition) by Wayne Lonergan
6. Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs – “Valuing Small businesses and Professional Practices”, Third Edition, 1998, at Pages 213, 259 & 260

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited

Calculation of a "ß Equivalent"

for the Business being Valued

Range of Responses:		
Zero Reliance or Subjectivity	**0**	Insert
Low to Moderate Reliance or Subjectivity	**25**	Response
Moderate Reliance or Subjectivity	**50***	within the
Moderate to High Reliance or Subjectivity	**100**	range
High Reliance or Subjectivity	**200**	**0**
Critical to Extreme Reliance on or Subjectivity, up to -	**400**	to
***assumed to be equivalent to a level regarded**		**400**
as average, irrespective of industry type		

Market Place Factors:	
Relative Reliance on / Subjectivity to -	
Customer / Fashion Trends	50
Product Technological Obsolescence	200
Retaining Major Customer(s)	50
Influence of Major Customers	50
Customers' ability to "backwards integrate" to suppliers	50
Synergistic Relationships with Other Businesses	50
Variability in costs of supply of product / components	50
Ease of Market Entry by Competitors	50
Integrity of Patents / Trademarks / Licences Held	100
Retaining Protection of Markets by Statute or other Barriers to entry	50
Government Subsidies	50
Government Contracts	50
Adverse Regulation/Control of Marketing of Product(s) by Governments	50
Favourable Local Economic Factors	50
Favourable National Economic Factors	50
Favourable International Economic Factors	50
Favourable International Exchange Rates	50
Stability of International Region(s)	50
Management / Production Factors:	
Relative Reliance on / Subjectivity to -	
Past Experience in current business practices	50
Links with Established Supplier(s)	50
Risk of limited life of sources of raw materials	50
Stability of source of products, raw materials or components	50
Retaining Key Personnel	50
Maintaining Skills Levels/Technical Expertise of staff	50
Obsolescence of Plant / Processes	50
Limitations on diversification of products/services	50
Location Factors:	
Relative Reliance on / Subjectivity to -	
Suitability of Present Location(s) to Relevant Customer Base	50
Limitation of Present Tenure of Premises	50
Obsolescence of Premises	50
Likelihood of unfavourable Government Legislation / Industry Zoning	50
Total Score	1,700
Value of ß	**1.13**

Appendix 7

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited
Calculation of the

Value of the Intangible Assets of the Business

			Refer
Future Maintainable Profits		$44,034	*Appendix 5 Page 1*
Capitalisation Rate		24.82%	*Appendix 6 Page 1*
Value of the Business as at	**30-Jun-07**	**$177,413** *(A)*	

Calculation of Value of Net Tangible Assets
[Refer Notes (1) and (2), Page 3]:

Assets Refer (1)	Balance 30-Jun-07	Included in the Net Tangible Assets? Yes / No	Adjustment Amount	Amount Included
Current Assets				
Cash at Bank	1,611	yes		1,611
Petty Cash	50	yes		50
Receivables:				
GST Clearing	5,060	yes		5,060
Loans:				
Kaitek	150	no		
AND Technology	150	no		
Morgan Thomas Max	150	no		
Total Current Assets	$7,171			$6,721
Non-current Assets				
Property Plant & Equipment - Revalued to Economic In-use Value @ 30% of Cost:				
Leased Equipment	136,652	yes		136,652
Less Accumulated Amortisation	(136,652)	yes	40,996	(95,656)
Office Equipment	2,728	yes		2,728
Less Accumulated Depreciaton	(2,728)	yes	818	(1,910)
Monitoring System	231,113	yes		231,113
Less Accumulated Depreciaton	(231,113)	yes	69,334	(161,779)
Furniture & Fittings	4,417	yes		4,417
Less Accumulated Depreciaton	(4,417)	yes	1,325	(3,092)
Total Non-current Assets	$0			$112,473
Intangible Assets				
Intellectual Property	5,929,600	no		
Less Accumulated Amortisation	(2,957,194)	no		
Total Intangible Assets	$2,972,406			$0
Total Assets (carried forward)	$2,979,577			

$119,194 *(B)*

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited
Calculation of the

Value of the Intangible Assets of the Business

Refer

Total Assets (brought forward)

As per "Books of Account"	$2,979,577			*Appendix 7 Page 1*
Included in the Tangible Assets of the Business		$119,194	*(B)*	*Appendix 7 Page 1*

Liabilities Refer (2)	Balance 30-Jun-07	Included in the Net Tangible Assets? Yes / No	Adjustment Amount	Amount Included		
<u>Current Liabilities</u>						
Creditors & Accruals						
Trade Creditors	18,593	yes		18,593		
Lease Liability	14,255	no				
Total Current Liabilities	$32,848			$18,593		
<u>Non-current Liabilities</u>						
Loan from MDM Aust.	51,327	no				
Accrued Interest Govt Loan	74,496	no				
Loan - C'wealth Government	360,500	no				
Total Non-current Liabilities	$486,323			$0		
Total Liabilities	$519,171				**$18,593**	*(C)*
Net Assets as per Balance Sheet	$2,460,406					
Value of the Net Tangible Assets					**$100,601**	*(D) [(B) - (C)]*
Value of the Intangible Assets					**$76,812**	*[(A) - (D)]*

Heart Monitors Pty Ltd
a Wholly Owned Subsidiary of
Medical Monitors Limited
Calculation of the

Value of the Intangible Assets of the Business

Notes:

(1) ***Assets Included:***

Cash at Bank (adjust for surplus or insufficient balance)
Inventories
Debtors (adjust for any abnormal amounts)
Prepayments
In use value of Motor Vehicles, Plant & Equipment (including leased items)

Assets Excluded:

Formation Expenses
Unexpired Borrowing Costs
Assets that not used in the business process or idle or surplus to business requirements
Loans to Associated persons or others
Land & Buildings (where these are owned, a rental value must be attributed)

(2) ***Liabilities Included:***

Accounts Payable (Trade Creditors) excluding overdue balances
Credit Card Debts used to fund non-overdue Accounts Payable
PAYG Tax Payable
GST Liabilities
Employee Entitlements:
Annual Leave Accrued
Long Service Leave Accrued

Liabilities Excluded:

Bank Overdrafts
Bank Term Loans and other Loan Finance
All hire purchase and lease finance liabilities
Credit Card Debts to the extent that they go beyond the interest free period
Credit Card Debts used to fund capital acquisitions
Income Tax Payable/(Refundable)
Long term loans from shareholders or others that are substitutes for Equity
Other liabilities that have been used to fund non business assets or
assets not used in the business process

Offices

Ayr
Brisbane
Cairns
Home Hill
Innisfail
Townsville
Tully

Annexure 'A'

Principles Governing the Valuation of a Business

(last Updated 12 March 2008)

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Index **Page No.**

1.0 Methodologies by which the Value of a Business Entity may be derived

1.1 The business valuation methodologies outlined herein, are those that value a business, in its current operating state, as at the date of the valuation. (In the case of a business that has, or will be subjected to a resumption of its premises, it should be valued on the basis that the resumption had never occurred.)

1.2 The value of a business, thus established, generally represents its "fair," "real" or "**intrinsic**" value. [1]

1.3 In most cases, the "fair", "real" and "intrinsic" values of a business will be the same, although information, either not known, or not taken into account by the valuing professional, may subsequently reveal that the business had a "real" value that was materially different from the "fair" or "intrinsic" value attributed to it, at the time the valuation was performed. [2]

1.4 Therefore, where the general expression, "**Intrinsic Value**", is used herein, the inference may be drawn that this will normally equate to "fair value" and "real value" also.

1.5 The Funk and Wagnalls Standard Desk Dictionary, 1977, defines "Intrinsic" as being *"belonging to or arising from the true or fundamental nature of a thing; essential; inherent."*

1.6 Therefore, the **Intrinsic Value** of a business may be defined as being the value "inherent" therein, "belonging to", or "arising from" its "true or fundamental nature". Thus, the **Intrinsic Value** of a business equates to its value, to the owner, in its present form, independent on how much it can be sold for.

1.7 For a business that is capable of being sold, its "Intrinsic Value" should also form the basis for establishing its "Market Value", i.e., *"the price that would be negotiated between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller acting at arms length within a reasonable time frame."* [3]

1.8 For businesses, such as listed public companies and widely held proprietary companies, this is usually the case.

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[1] Potts v Miller (1940) 64 CLR 282 at 299 per Dixon J.

[2] HTW Valuers (Central Qld) Pty Ltd v Astonland Pty Ltd [2004] HCA 54 (12 November 2004)
(From High Court of Australia; 12 November 2004)

[3] Securities Institute of Australia, E102 Applied Valuation, Paras. 1-6 and 1-7

1.9 However, the "**Market Value**" of a business may be set without reference to its **Intrinsic Value** because, "*at the small business end of the spectrum*", businesses often change hands at values set by reference to simple "Rules of Thumb". [4]

1.10 Therefore, where it appears that the value of a business, and thereby, the value of its Business Goodwill may be quantified, by the application of a "Rule of Thumb" **Market Value,** that is different from its **Intrinsic Value**, those values may also be quantified, on the basis of the applicable Rule of Thumb.

1.11 In the sections following, summaries of the various **Intrinsic Value** methods, used by accountants to value businesses, are provided. These comprise:

(a) The Discounted Future Net Cash Flows – "Pre-tax Cost of Equity" Method.

(b) The Discounted Future Net Cash Flows – "Weighted Average Cost of Capital" Method.

(c) The Capitalisation of Future Maintainable Profits "Pre-tax Cost of Equity" Method.

(d) A Combination of the Discounted Future Net Cash Flows and the Capitalisation of Future Maintainable Profits "Pre-tax Cost of Equity" Methods.

2.0 Intrinsic Value, established by the Discounted Future Net Cash Flows – "Pre-tax Cost of Equity" Method

2.1 The "Discounted Future Net Cash Flows" method establishes the value of a business, in its present mode of operation, to the existing owners or shareholders.

2.2 However, whether or not a business is capable of being sold, the Discounted Future Net Cash Flows method ("DCF") is universally accepted in the Forensic Accounting profession as being the most theoretically sound method for valuing a business, that is either continuing, or would have been capable of continuing in operation, but for extraneous circumstances, such as a resumption by a government authority.

[4] Wayne Lonergan - "The Valuation of Businesses, Shares and Other Equity, Fourth Edition (2003), at Page 21 and Pages 302 to 305.

2.3 This is based on the principle that the worth of a business or, in fact, any investment, at a particular time, is equal to the "present value" of all of the cash it is expected to earn (net "cash flows") from that time on, up until the end of its predictable life.

2.4 The "present value" of those future cash earnings is calculated by the use of an appropriate discount rate.

2.5 The logic of how a discount rate is used to calculate the present value of an amount of cash to be received at a future date is that it equates to the calculation of how much an amount will grow to by that future date, at a given compounding rate of return, only applied in reverse. This is illustrated by the following example:

$10,000, invested at 10% per annum, compounding annually, will grow to $25,937, in 10 years' time.

Whereas, $10,000, not received till 10 years' time, is the equivalent of receiving only $3,855 now which, when invested at the same rate of return, will grow to $10,000, in 10 years' time.

Thus $3,855 is the "present value" of $10,000, receivable in ten years' time, discounted by a factor of 0.90909 (100% ÷ 110%) per year.

2.6 There are generally two elements that determine the discount rate to be used. These are:

(a) The "risk free" element

(b) The "risk" element

2.7 The risk free element is determined by answering the question, "What rate of interest could have been earned on the particular funds, had they been placed in an alternative, completely risk free investment?" For all practical purposes (for investments by Australian residents), this is generally considered to be the 10 year Commonwealth Bond rate.

2.8 The risk element may be defined as being that additional rate of return, over and above the risk free rate, that would be required to induce a business person or investor to risk their funds in a particular business or investment.

2.9 Thus the sum of the two elements establishes the Discount Rate.

2.10 Wayne Lonergan defines the Discount Rate as being "...*that rate which the investor could expect to obtain by investing in other investments with a comparable risk.*" [5] However, it appears that Mr Lonergan's definition represents a circularity of reasoning, i.e., what then determines the discount rate applicable to those *"other investments with a comparable risk"*?

2.11 Consequently, a more efficacious definition of the Discount Rate would be "the rate of return an investor would expect from investing funds in a business or other asset, having given due consideration to the risks inherent in doing so".

2.12 However, to establish the Discount Rate applicable to the operations of the business itself, it needs to be converted to a Pre-tax Discount Rate.

2.13 This is achieved by dividing the Discount Rate applicable to the business, the Equity Holders' Discount Rate is divided by (1 – t), where "t" equals the Income Tax Rate applicable to the business.

2.14 As the valuation principles covered in this Annexure are in respect of a business, further explanations will be limited to that context only, rather than the broader context, which would include real estate, shares and many other types of stock market investments.

2.15 The Pre-tax Discount Rate is then applied to the amounts of cash ("Net Cash Flows") that the business is expected to generate in the future, to convert them to their present day equivalent values.

2.16 By inference, the Discounted Future Net Cash Flows methodology takes into account the future capital expenditure needs of a business and the timing thereof.

2.17 The Discount Rate is applied by Moore Stephens to the Future Net Cash Flows, on an "EBITDA" basis (Before Interest, Tax, Depreciation and Amortisation).

2.18 The principal component of Hire Purchase finance payments must also be eliminated from the Future Net Cash Flows. This is because these represent debt repayment, rather than the acquisition of the assets to which they relate.

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[5] Wayne Lonergan - "The Valuation of Businesses, Shares and Other Equity, Fourth Edition (2003), at Pages 67 and 68.

2.19 All of the future Finance Lease payments must be eliminated from the Future Net Cash Flows. This is because those payments comprise both Interest and Loan Principal repayments. (Plant & Equipment, acquired by Finance Lease, is treated as though it was purchased outright, on the day it was acquired, and the Lease Finance treated as borrowings. This is because it becomes available for use in the business from that day on.)

2.20 Consequently, for the Discounted Future Net Cash Flows method of valuation, the Value of the Business will be the Present Value of the Future Net Cash Flows, adjusted as detailed above.

3.0 Intrinsic Value, established by the Discounted Future Net Cash Flows – "Weighted Average Cost of Capital" Method

3.1 Where a business enterprise has a substantial level of debt funding and the business is to be valued, in the context of that debt funding being regarded as a substitute for Equity, a Discount Rate, combining the Cost of Equity and the Cost of Debt (interest on the borrowings) should be employed. This rate is referred to as the Weighted Average Cost of Capital ("WACC").

3.2 The meaning of WACC is well described by its name, i.e., a combination of the "cost" of the rate of return required by the business owners/shareholders (Equity) and the cost of interest on borrowings, "weighted", as to the relative values of each.

3.3 The WACC of a business should always be established by reference to the expected After Tax, but Before Interest, Profit figures. This is because the Cost of Equity (return to the owners/shareholders), which may include Preference as well as Ordinary Shares, is <u>after</u> Income Tax payable by the entity.

3.4 However, the "WACC" method is generally only suitable for a business, that has a fixed level of debt, such as that provided by Debenture Stock or Preference Shares.

3.5 If it is applied to a business that has a variable level of debt, e.g., a Bank Term Loan, Lease Finance or Hire Purchase Finance, it would require a re-calculation of the WACC, at each date on which the debt finance level changes. This is because, each time the level of debt changes, the Debt / Equity mix would change also.

3.6 It would therefore not be possible to do a WACC calculation, based on Bank Overdraft debt, which changes on a daily basis!

3.7 The general formula for estimating the After Tax WACC may be expressed as: [6]

$$WACC = k_b(1-T_c)\frac{B}{V} + k_p\frac{P}{V} + k_s\frac{S}{V}$$

where:

k_b = the pretax market expected yield to maturity on non-callable, nonconvertible debt,

T_c = the marginal tax rate for the entity being valued

B = the market value of interest-bearing debt,

V = the market value of the entity being valued (V=B+P+S),

K_p = the after-tax cost of capital for noncallable, nonconvertible preferred stock (which equals the pretax cost of preferred stock when no deduction is made from corporate taxes for preferred dividends),

P = the market value of the preferred stock,

K_s = the market-determined opportunity cost of equity capital,

S = the market value of equity.

3.8 However, where, under the Income Tax Debt-Equity Rules, the Interest on the Preferred Stock is deductible, the Cost of the Preferred Stock must fall in with the Cost of Debt ("k_b").

3.9 Thus, where an entity has a mixture of Equity (Ordinary and Preferred Stock) and/or a mixture of Equity and Debt, such as Debenture Stock, the WACC formula is particularly useful for:

3.9.1 Determining an appropriate Equity / Debt mix, where additional capital may be sought, either by the raising of additional Equity, obtaining additional loan funds, or a combination of both.

3.9.2 Establishing the value of the shareholdings of the entire entity for the purposes of a sale of the shares therein.

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[6] "VALUATION Measuring and Managing the Value of Companies", SECOND EDITION, 1996, by Tom Copeland, Tim Koller and Jack Murrin, at Page 248

3.10 Where a business entity is the subject of a "takeover", a WACC valuation may also be performed by the "acquiring" entity, which may intend to put in place an Equity / Debt mix, that is different from the one in existence at the time of the takeover. In such a valuation engagement, the WACC used should be determined by reference to the acquiring entity's intended "post-takeover" mix, rather than the "pre-takeover" mix.

3.11 In deriving the Cost of Debt, only debts that have been used to acquire or support the assets used in the core business being valued, i.e., any debt or part thereof that has been used to fund the acquisition of other business operations or segments, real property, surplus, non-productive or private assets, must be excluded.[7]

3.12 Consequently, for the Discounted Future Net Cash Flows Weighted Average Cost of Capital method of valuation, the Value of the Business will be the Present Value of the Future Net Cash Flows, calculated by the application of a Discount Rate, equating to the Weighted Average Cost of Capital of the business.

3.13 All small business finance that is secured by mortgage on the owner's private residence or other personal assets outside the business, or backed by personal guarantee, should be excluded from the value of debts included in the WACC calculation, and included in the value of Equity.

3.14 This is because, where this occurs, the owners / shareholders are "at risk" in respect of those debts to the same extent, as if they had borrowed the funds privately, and then put the money into the business, as capital contributed (Equity). Thus the Cost of Debt, attributed to finance obtained in this way, should be the same as the Cost of Equity itself.

3.15 However, the treatment of loan finance as Equity applies only in circumstances where the person or persons providing the mortgages and / or personal guarantees also have, either directly or indirectly, 100% ownership of the entity.

3.16 Where they have provided security and/or guarantees for the entity's finance but have less than 100% ownership, the loan finance should be treated wholly as Debt and included in the Cost of Debt calculation. To do otherwise would result in biasing the WACC calculation towards Equity so as to "skew" the cost of the entire Equity, not just the Equity held by the security / guarantee providers.

[7] Wayne Lonergan - "The Valuation of Businesses, Shares and Other Equity, Fourth Edition (2003), at Page 29.

3.17 However, it is generally not appropriate to use a WACC Discount Rate, for the purposes of valuing "closely held" businesses, in particular, those conducted by a private company (either in its own right, or in its capacity as trustee of a trust), a partnership, or a sole proprietor.

3.18 This is because:

3.18.1 Interest bearing loan funds obtained by such businesses are usually supported by the personal guarantees of the Directors, partners or sole proprietor ("the owners").

3.18.2 In most instances, the loans are also secured on the private residences or other real property of the owners.

3.18.3 Consequently, by personally guaranteeing the loans and pledging their private assets as security, the owners place themselves in the same risk position, as if they had borrowed the funds, in their own names, and then "tipped the money into" the business, as their own contribution to the capital thereof.

3.18.4 Thus, for the purposes of valuing such businesses, borrowed funds are equated to capital contributed by the owners ("Equity"), with the result that the valuation should be based on an appropriate "Cost of Equity" methodology.

4.0 Limitations of the Discounted Future Net Cash Flows Methodology

4.1 The usefulness of the Discounted Future Net Cash Flows methodology, on its own, is limited to valuing a business with a known limited life, e.g., a mine of known limited resources.

4.2 For continuing businesses, Future Net Cash Flow Forecasts are normally limited to a period of one to three years. This is because the level of uncertainty of achieving future forecasted results increases, the further the periods covered by the forecasts are extended into the future.

4.3 However, this limitation is overcome by employing a combination of the **Discounted Future Net Cash Flows and Capitalisation of Future Maintainable Profits 'Cost of Equity' Methods**, full details of which, are contained in the subsequent **Section of this Annexure, titled, "Intrinsic Value, established by a Combination of the Discounted Future Net Cash Flows and Capitalisation of Future Maintainable Profits 'Pre-tax Cost of Equity' Methods**".

5.0 Intrinsic Value, established by the Capitalisation of Future Maintainable Profits "Pre-tax Cost of Equity" Method

5.1 However, it is quite common for business operators, particularly those of small businesses, not to prepare estimates of Future Net Cash Flows. This is for one or more of the following reasons:

(a) they do not believe they can be reliably predicted or, if predicted, the figures would be more or less arbitrary,

(b) they simply do not have any idea regarding their Future Net Cash Flows, but believe that their business will continue on, at least for the foreseeable future, at the same level of profitability, and/or,

(c) they are not willing to incur the cost of professional assistance to prepare them.

5.2 In such instances, a surrogate methodology, described as the Capitalisation of Future Maintainable Profits (or Earnings) method ("Cap FMP" or "Cap FME" method) is often used – *"Capitalised earnings methodologies are surrogates for the amount of cash expected to be generated".* [8]

5.3 Although the Cap FMP method is regarded in the valuation profession as a "surrogate method", in the small business market place it is usually not only the only method readily available, but it is actually preferred by small business operators.

5.4 This is because it is normally based on past results actually achieved, which can be verified by reference to Trading and Income Statements, prepared by external accountants. An even greater level of confidence in relying on past results is generally felt by potential business buyers, where the Financial Statements of the business have also been audited.

5.5 By contrast, future business Cash Flow Budgets, prepared by an owner who is looking to sell the business, may appear to be unrealistic, when compared to the "past results" figures.

5.6 For the Cap FMP method, a Capitalisation Rate ("Cap Rate") is substituted for the Discount Rate and applied to the expected Future Maintainable Profits to establish the value of the business.

5.7 It is also, alternatively, described as the Price Earnings Ratio method, i.e., a Price Earnings Ratio ("PER") is applied to the expected Future Maintainable Profits to establish the value of the business so that, for example, a PER of '4' is equivalent to a Cap Rate of 25%.

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[8] Wayne Lonergan - "The Valuation of Businesses, Shares and Other Equity, Fourth Edition (2003), at Page 21.

5.8 The most commonly used Profit figure is the Profit Before Interest and Tax. This enables a business to be valued, irrespective of both its level of debt and the Income Tax structure in place. The "Before Interest and Tax" basis is widely used and accepted in valuing small businesses, whether for the purpose of establishing its market value, or just its value to the owner.

5.9 However, Moore Stephens adopts the Before Interest, Tax, Depreciaton and Amortisation approach, with an accompanying deduction adjustment, to account for future Plant & Equipment replacements.

5.10 For a business where no continuous growth or decline in profitability is anticipated, the Capitalisation Rate equates to the appropriate Discount Rate.

5.11 Where a continuous growth or decline pattern applies, which includes the rate of growth necessary just to keep pace with inflation, the Discount Rate requires adjustment to reflect the predicted rate of growth or decline.

5.12 Shannon P Pratt [9] explains that a Capitalisation Rate can be used for a growing or a declining business:

"For an investment with perpetual life, the difference between the discount rate and the cap rate is the average annually compounded percentage rate of growth or decline in perpetuity in the economic income variable being discounted or capitalized.

The above relationship can be expressed as a formula very simply:

$$c = k - g$$

where:

c = *direct capitalization rate (a rate to be used as a divisor to convert an economic income flow variable, such as net cash flow, to an indication of value)*

k = *present value discount rate*

g = *annually compounded rate of growth in the economic income variable being capitalized over the life of the investment. (If there is an expected rate of decline, the g is negative, so the effect is that the rate of decline is added to the discount rate in order to estimate the direct capitalization rate.)"*

[9] Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs - "Valuing Small Businesses and Professional Practices", Third Edition, 1998, at Page 213.

5.13 However, where a material continuous future growth rate is predicted, the period to which the rate is applied should be the same as the discounting period applicable. For example, where monthly discounting would have been applied and an annual growth rate of 6% is assumed, the equivalent monthly rate is not 0.5% (6% ÷ 12) but 0.4868%, i.e., a growth rate of 0.4868%, compounded monthly, results in a growth rate for the whole year, as compared to the previous year, of 6%.

5.14 This difficulty is overcome by applying the formula set out in the next paragraph.

5.15 Whether monthly, fortnightly, or any other part of a year is assumed for both a regular growth rate and therefore, for applying periodic discounting, the part year rate that provides a full year growth rate, equivalent to a certain percentage, is determined by the formula:

10^ (LOG 10 (1 + the yearly % rate) ÷ no. of the periods in a year) – 1

(This formula is proved by applying the reverse formula, (1 + above % rate) ^ (no. of the periods in a year) -1)

5.16 However, it is generally unrealistic to assume a business will either grow or decline on an indefinite, regular basis. Experience over the past several decades has shown that businesses simply do not "grow forever". Rather, any current expected rate of growth or decline is more likely to be experienced for only a limited period, after which, it must be re-evaluated, in the light of business and other relevant economic conditions prevailing at the time.

5.17 Therefore, where a pattern of growth (apart from that arising only in line with expected inflation) or decline is predicted, the most appropriate way of valuing a business is by the Discounted Future Net Cash Flows method.

5.18 It is only in the situation where variations in Future Net Cash Flows cannot be reliably predicted and it is also reasonable to expect that they will remain at around their present level indefinitely (apart from the effects of inflation), that it is acceptable to use the surrogate Capitalisation of Future Maintainable Profits method.

5.19 When doing so, Mr Pratt's formula, should be used to convert the Pre-tax Discount Rate to an equivalent Pre-tax Capitalisation Rate, i.e.:

The Capitalisation Rate = The Discount Rate ***minus*** the Annual Expected Inflation Rate

5.20 **Limitations of the Capitalisation of Future Maintainable Profits Method**. When using the alternative Cap FMP method, its inherent limitations should be understood. Those limitations are listed in the following paragraphs and also, where applicable, the methodologies by which their effect may be minimised, within the limitations set by the extent to which information, regarding the operations of the particular business, is available.

5.21 **The Assumption of Perpetuity**. The Cap FMP method of valuation assumes that the business being valued will "go on forever".

5.22 However, this assumption does not result in a material overstatement in the value of a business, as long as it is expected to "last", in its current state, for about fifteen years or more.

5.23 This is because of the regression in value that results, when discounting amounts that are a "long way out" into the future. For example, $100 of net cash inflow, expected to be derived fifteen years from now, discounted at 25% per annum, is worth only $3.52, in present day terms.

5.24 As the discount rate increases, the effect of future net cash inflows on the valuation result decreases, so that the same $100 of net cash inflow, expected to be derived fifteen years from now, discounted at 30% per annum, is worth only $1.95, in present day terms.

5.25 **Cap FMP Method not Appropriate for Valuing a Limited Life Business**. The Cap FMP method cannot be used to value a business with a known limited life, e.g. a mining operation with a limited level of resources, or a business that will have to be shut down, with no opportunity to relocate, once its last available lease option extension period has expired.

5.26 **FMP Method Assumes Consistency of Future Cash Inflows and Outflows**. The Cap FMP method cannot account for material variability in the amounts and timing of future cash inflows and outflows. However, the further into the future that variability occurs, the less effect it has on the valuation, as explained above, under "**The Assumption of Perpetuity**".

5.27 **For the Cap FMP Method, Depreciation and / or Amortisation[10] Expense cannot act as Surrogates for Capital Expenditure Future Cash Outflows**. (In this Annexure, for the sake of brevity and, where appropriate to the context, the term, Plant & Equipment, will also include Motor Vehicles and Lessee's Fittings and Premises Improvements.)

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[10] Refers to Amortisation of Assets acquired by finance lease, not Amortisation of Formation Expenses, Borrowing Costs or Intangible Assets.

5.28 Regardless of the way in which Depreciation / Amortisation Expense has been calculated, the "Capitalisation" of that expense bears no relationship to the present value of the future expenditure requirements of the business, in respect of that Plant & Equipment.

5.29 Rather, the Accumulated Depreciation / Amortisation of Plant & Equipment identifies the extent to which those items have declined in value and therefore represents the net expenditure required, as at the valuation date, to restore the Plant & Equipment to its original value.

5.30 This is provided, where the current replacement costs and trade in, or other disposal value, of Plant & Equipment items are expected to vary materially from their "book values", the Accumulated Depreciation / Amortisation amount is updated, to reflect those changed values.

5.31 Therefore, to value a business by the Capitalisation of Future Maintainable Profits method, the following process should be adopted:

5.31.1 Capitalise the Future Maintainable Profits of the Business, on a Before Interest, Tax, Depreciation & Amortisation basis. This is called the "Cap EBITDA" (Capitalisation of Earnings Before Interest, Tax, Depreciation & Amortisation) method.

5.31.2 Then, to account for the accumulated decline in the value of Plant & Equipment from new (or second hand value, where the business is of the type that acquires Plant & Equipment, second hand), deduct the total amount of Accumulated Depreciation / Amortisation thereon, as at the valuation date.

5.31.3 This deduction also accounts for the present net expenditure required to replace the existing Plant & Equipment, with equivalent new items, or, where applicable, used items.

5.32 Thus the Capitalised EBITDA amount, less the Accumulated Depreciation / Amortisation amount, will be the Value of the Business.

6.0 Intrinsic Value, established by a Combination of the Discounted Future Net Cash Flows and Capitalisation of Future Maintainable Profits "Pre-tax Cost of Equity" Methods

6.1 By inference, where a business is expected to go through a pattern of growth, decline or other variability in its profitability, for a given period and then "level out", a combination of the two methodologies may be employed.

6.2 In this instance, the expected Future Net Cash flows up to the expected "level out" date are discounted to present value and the "stabilised" Future Maintainable Profits, as from the day following the "level out" date, are "capped up". Because that "cap up" value is also at a future point in time, it must also be discounted to its present value, at the same rate as that applied to the earlier Future Net Cash flows.

6.3 The "Cap Rate" used at that future point in time must also be adjusted for expected annual inflationary increases, in accordance with Mr Pratt's formula [11] (or, as further refined, as described in the previous section, where the necessity for such refinement is material).

6.4 The sum of the present values of the Future Net Cash Flows up to the "level out" point and the "capped up" value, one day later, will then be the Value of the Business.

7.0 Deriving the Pre-tax Discount and Capitalisation Rates

7.1 As explained in **Section of this Annexure, titled, "Deriving the Pre-tax Discount and Capitalisation Rates"**, Discount Rate and, where appropriate, a Capitalisation Rate, appropriate to the Business, has to be established. As the Business is to be valued irrespective of the level of borrowings, the appropriate Discount and Capitalisation Rates will be based on the Cost of Equity for the Business.

7.2 The Cost of Equity is calculated as:

$Re = rf + (MRP)ß$

where:

Re = *Cost of equity capital or expected return on the investment*

rf = *Risk free rate of return. Usually based on long-term government bond rate*

MRP = *Market Risk Premium*

ß = *Beta of the investment being valued. Betas are available for an investment in the equity of individual listed companies, but for an unlisted entity, an estimate will have to be developed.*[12]

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[11] Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs - "Valuing Small Businesses and Professional Practices", Third Edition, 1998, at Page 213.

[12] Wayne Lonergan, "The Valuation of Businesses, Shares and Other Equity", Fourth Edition (2003), at Pages 156 and 157.

7.3 Thus the Cost of Equity calculation will commence with the Commonwealth Treasury Bonds 10 year rate that applied as at the valuation date.

7.4 The next step in the procedure is to establish an appropriate current "Market Risk Premium". In doing so, consideration has been given to:

7.4.1 The third paragraph, page 157, of "The Valuation of Businesses, Shares and Other Equity", Fourth Edition (2003), by Wayne Lonergan, which states, *"The market risk premium (re)presents the additional return (**typically 5 per cent to 8 per cent**) over and above the risk free rate of return which investors will require in order to compensate them for the undiversifiable risks associated with an investment in the market portfolio".*

7.4.2 An Expert Opinion report, dated December 2005, by Robert G Bowman, Professor of the Department of Finance and Accounting, at the University of Auckland. This report was prepared for Telstra Corporation Limited, to give an expert opinion in relation to the Weighted Average Cost of Capital for its Unconditional Local Loop Service and Spectrum Sharing Service for the three financial years, 2005/06, 2006/07 and 2007/08. [13] In that report, based on a 10 Year Bond Rate, Professor Bowman derived a "long-horizon" Market Risk Premium for Australia of **7.0%**.

7.4.3 A professional paper delivered to members of the Chartered Institute of Accountants in Australia at the Business Valuation & Forensic Accounting Conference in Sydney, on 14 September 2006, by Professor RR Officer, Emeritus Professor, University of Melbourne. In that paper, at page 29, he concludes, *"Clearly, whether the most recent 30-year period or a long historical period of 124 years is taken, the data supports a MRP of at least **6%**."*

7.5 The average of the **7.0%** rate derived by Profession Bowman and the **6%** rate cited by Professor Officer is **6.5%**. This average also equates to the mid-point of the range of 5% to 8% given by Mr Lonergan, which is **6.5%**.

7.6 Thus, for business valuation purposes, the adoption of a Market Risk Premium of **6.5%** would appear to be appropriate.

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[13] "Report on the Appropriate Weighted Average Cost of Capital for ULLS and SSS (Public Version)", prepared for Telstra, dated December 2005.

7.7 The procedure then requires the use of a **ß** (Beta) value in respect of the Business. For listed public companies, those values are available from some stock brokers and research institutions. The Beta provides a measure of the "volatility" of a company's stock which is related to the risk perceived by investors to be inherent in a particular company's activities, relative to the stock market as a whole, so that a value of '1' would represent the average for the market.

7.8 For unlisted entities, Betas are not available and so an equivalent value has to be "developed".[14] The development process is not an exact science but provides a mathematically based result, as opposed to adopting just an industry standard or "seat of the pants" Discount Rate.

7.9 Therefore, values, in the range, zero to 400 may be been assigned to all of the known separate risk factors faced by the business in its market place and, thereby, a value for 'ß' may be derived.

7.10 However, the ß value derived by following this process should, nevertheless, be then compared, for reasonableness, with an intuitive, "seat of the pants" figure. (A 'low' risk business would have a value of less than 1, an 'average' risk business, in the range 1 to 2, and a 'high' risk business, 2 or more.)

7.11 Thus, by applying the formula, "[rf + (MRP)ß]", a "Cost of Equity for the Market" is derived.

7.12 However, the rate derived by this formula applies specifically to investment in the issued shares of a listed public company, in which the shareholdings can be traded, either wholly or in part, on a daily basis. By comparison, investment in a single business constitutes a significantly less "negotiable instrument", i.e.:

7.12.1 The investment, or a portion thereof, cannot be traded on a daily basis,

7.12.2 A single business does not offer an investor the opportunity of obtaining the diversifiable risk profile available for investment in a number of different shares

7.12.3 The potential buyer population available, to which a single business can be offered for sale, is far lower than that available for the sale of publicly listed shares, and

[14] Wayne Lonergan, "The Valuation of Businesses, Shares and Other Equity", Fourth Edition (2003), at Page 157.

7.12.4 A sale price and terms of settlement have to be agreed upon as between the vendor and the purchaser as opposed to shares, where the price is set by the listed sell value for the day. (Even in the case of a takeover offer, the price is as per the offer and not the subject of negotiation.)

7.13 This results in the necessity to account for an additional "small company risk premium" for investment in the Business.[15]

7.14 In this regard, reference has been made to a paper of Wayne Lonergan, titled "Developments in Business Valuations", delivered to members of the Institute of Chartered Accountants in Australia in June 2004.

7.15 In his paper, Mr Lonergan refers to an Ibbotson Associates study, which quantified a "Small Company Risk Premium" of 5.78% for investment in "smaller companies". Although this was an American study, a premium of similar magnitude should apply to investment in an equivalent Australian "off market" business.

7.16 Therefore, in calculating a Discount Rate for the business being valued, it would be appropriate to add a "Small Company Risk Premium" of **5.78%**.

7.17 Thereby, a Cost of Equity for the Business – after Income Tax, is derived. Therefore, to convert that Cost of Equity to its Before Interest & Tax equivalent, it has to be divided by:

$(1 - t)$

where, *t = the rate of Income Tax applicable to the business*

(normally assumed to be 30%)

7.18 Thus, a Discount Rate, on a Before Interest & Tax basis, applicable to the Future Net Cash Flows of the Business, is derived.

7.19 As for future profits, an annual growth rate equivalent to the average rise in the CPI Brisbane over the last five March Quarters, preceding the Date of Valuation, is assumed.

7.20 By applying Mr Pratt's formula, to convert a discount rate to a capitalisation rate [16], the annual growth rate is then deducted from the Discount rate, to derive a Capitalisation Rate.

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[15] Wayne Lonergan, "The Valuation of Businesses, Shares and Other Equity", Fourth Edition (2003), at Page 157.

[16] Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs "Valuing Small Businesses and Professional Practices", Third Edition, 1998, at Page 213.

7.21 However, the Capitalisation Rate finally adopted should, nevertheless, then be compared, for reasonableness, with an intuitive, "seat of the pants" figure (typically 20% to 25% for low risk businesses, 25% to 35% for those of "average" risk and over 35% for businesses with considerable risk attached).

8.0 Value of the Business and the Business Goodwill

8.1 The Value of the Business, which includes the Value of its Goodwill, is then calculated by either:

8.1.1 The Discounted Future Net Cash Flows method

8.1.2 The Capitalisation of Future Maintainable Profits method, or

8.1.3 A combination of both.