



fermiscan®

Australian Innovator of the Year 2008

2008



About Fermiscan

Fermiscan is pioneering the development of a simple, non-invasive test for breast cancer.

This breakthrough technology uses human hair to detect breast cancer potentially increasing the number of women being screened and with the benefit of early detection, offering a better opportunity to treat the disease successfully.

Fermiscan is developing opportunities to licence and sell the test internationally, particularly in the markets of Australia, Europe, Japan, South East Asia, and the United States.

Breast cancer is a global concern. One in eight women will develop breast cancer in their lifetime. More than 300 million women are eligible for the Fermiscan Test in the western world alone.

Annual General Meeting

Thursday 7 May 2009, at 11.00 am (Sydney time) at
Macquarie Graduate School of Management
Macquarie University House
51 Pitt Street, Sydney NSW 2000

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Highlights 2008



- Completed major FER 2k clinical trial of the Fermiscan Breast Cancer Test in May 2008,
- Sensitivity (ability to accurately detect cancer) of 74% in women under 70 and with a higher sensitivity for younger women
 - Specificity (ability to accurately detect the absence of cancer) of 78%
 - Negative predictive value (probability of no disease among patients determined to be negative by the Fermiscan Test) of 99%
-



Progress towards commercialisation in Australia in 2009 on track



Acquired Australia's largest private breast care clinic, Sydney Breast Clinic, in June 2008



Patents granted in Japan and European Community countries



Exclusive option agreement to licence the Fermiscan Test to Hitachi Chemical in Japan and Korea granted, in March 2009



- Italian independent study (123 patients) completed in March 2009. The results compare favourably to earlier studies and indicate
- Sensitivity (ability to accurately detect cancer) of 83% and
 - Specificity (ability to accurately detect the absence of cancer) of 76%.
-



European multi-centre trial of the Fermiscan Test planned to support commercialisation in Italy and Europe



European CE Mark registration of the Fermiscan Test under way, with completion expected mid-2009



Australian Synchrotron agreement signed in February 2009 securing beamline access for two years



Chairman's Report



It is a great pleasure to present the 2008 annual report of your company. Over the year we made substantial progress at Fermiscan, with further advancements towards our goal of commercialising our non-invasive test for the detection of breast cancer.

We achieved a significant milestone in May 2008 when we completed the large FER 2k patient clinical trial with pleasing results. The Fermiscan test correctly identified breast cancer in 74 per cent of women under 70, which compares favourably with published studies for the accuracy of mammography. Importantly, analysis showed the test was highly accurate as a negative predictor, with 99.4 per cent probability of no breast cancer in patients with a negative test.

Acquisition of the Sydney Breast Clinic in June 2008 provided a good strategic fit for Fermiscan, as it aligned Fermiscan's and Sydney Breast Clinic's shared objectives of improving health outcomes for women. More than 10,000 women use the clinic's services annually, and improved understanding from using the Fermiscan Test in a busy clinical environment has helped bring our product closer to market. The clinic was a major participant in our clinical trial and, following capital improvements, is performing in line with expectations.

Our international development strategy progressed satisfactorily. In March 2009 we signed an exclusive option agreement with Hitachi Chemical Company for the Japanese and Korean licence rights to the Fermiscan Test. Hitachi Chemical has begun a feasibility study, after which the option may be exercised.

Plans to commercialise in Europe were brought forward by the positive outcomes of a 123-patient, independent trial in Italy. An initial report, provided on request to the Italian Parliamentary Health Committee by an Italian National Health Service Unit, ASLto5 (under the supervision of the Centre for Oncological Prevention of the Piemonte Region which approved the study), indicated the Fermiscan Test accurately identified the presence of cancer in 83 per cent of cases, the highest degree of accuracy so far and a strong endorsement of the test's commercial potential. A further multi-centre trial is planned and, assuming continued results are as positive as this it would support commercialisation in Europe.

Fermiscan's technology uses synchrotron X-ray technology which penetrates deep into matter and allows scientists to investigate molecular change. We are delighted, therefore, to have secured facilities for two years at the Australian Synchrotron in Melbourne.

In the present difficult financial market we have focused on prudent cost control and strict management of all spending. Following completion of the major trial our clinical costs are less, and the move to the Australian Synchrotron further reduces operational costs.

We continue to strive for the highest levels of ethical conduct and corporate governance. We welcome the updated Australian corporate governance guidelines, and these are in place at Fermiscan. Our governance also includes a highly qualified Scientific and Medical Advisory Board and an independent ethics committee registered with the National Health and Medical Research Council (NHMRC).

During the year, founding director Ian Holman retired from the board, and I would like to thank him for his services. I also extend thanks to my fellow board members and to managing director David Young and his team for their efforts.

Gary Garton
Chairman

Managing Director's Report



This is an exciting time for Fermiscan. We have a great opportunity to unlock the potential of the Fermiscan Test for breast cancer as we prepare for its phased commercial launch in Australia. This builds on the foundations laid since we listed on the ASX in 2006 – a sound business model for an international business specialising in early detection technologies; a strong management team; tight financial control; and commitment to corporate governance, clinical and operational achievement.

The Fermiscan test offers tremendous scope to contribute to the improvement of health outcomes for women. It is the first cancer test to use hair and is simple and non-invasive. While women of all ages can use the test, it is most suitable for women under 70 years of age, particularly younger women whose dense breast tissue may be unsuitable for mammography. The potential health outcomes for women who are not being screened today is significant.

Breast cancer is the most lethal form of cancer for women. The American Cancer Society estimates that more than 1.3 million cases will be diagnosed worldwide each year. It is estimated that breast cancer will be diagnosed in 1 in 8 women during their lifetime. The burden on the economy is also huge. For example, a 2008 overview of cancer in Australia by the Australian Institute of Health & Welfare found breast cancer was the highest ranked cancer for women in terms of contributing to the total burden of disease.

Mammography, ultrasound and biopsy are the current 'gold standard' in the detection of breast cancer. More than 100 million mammograms are performed annually around the world, indicating a significant market for the Fermiscan Test.

Australian trials

A highlight of the year was the successful completion of a major clinical trial which compared results from mammogram and ultrasound with the Fermiscan test. Patients participated in the large population FER 2k trial, which began in January 2007 with the support of major Australian radiology and diagnostic groups.

We were extremely pleased that results confirmed the comparative accuracy of the Fermiscan test. Analysis showed the Fermiscan test correctly identified breast cancer in women under 70 with an accuracy rate of 74 per cent.

Nearly 1400 patients under 70 were correctly identified as not having breast cancer. The resulting negative predictive value of 99.4 per cent demonstrates the value of the test as an indicator that a patient does not have breast cancer. The Fermiscan Test correctly showed 80 per cent of patients referred for biopsy (as the result of a suspicious mammogram or ultrasound) were negative for breast cancer.

Significant improvements during the course of the trial included optimisation of synchrotron beamlines to enhance results. Commercial capacity was boosted by enhanced automation. Strict processes for collecting, handling, transporting and loading hair contributed to improved operations; and we benefited from the input of key medical and patient advocate groups.



Managing Director's Report

Sydney Breast Clinic

Another important milestone was Fermiscan's strategic acquisition of Sydney Breast Clinic on 13 June 2008. This is one of Australia's largest diagnostic breast clinics and more than 3,000 general practitioners refer patients to this specialist centre.

The clinic was a major participant of the 2,000 patient clinical trial and its acquisition has helped bring our test closer to market. In September 2008, the clinic began a new trial of the Fermiscan Test, and this is expected to contribute to further development of our technology. More information about Sydney Breast Clinic is on page 16.

The acquisition cost was \$3.5 million and we also advanced \$2.2 million to retire debt. Transaction costs were funded from cash resources. Since acquisition, new processes and organisational changes have contributed to potential profit improvements and even though Sydney Breast Clinic has been performing to expectations, it is anticipated the current economic environment will have an impact on patient throughput in the coming year.

International development

Japan and Korea

In Japan, we are delighted to be assisting Hitachi Chemical Company's Life Science business with its feasibility study. This is expected to take about six months and, subject to results, Hitachi Chemical's option to licence the Fermiscan test in Japan and Korea may be exercised and terms agreed.

Japan is an important market for Fermiscan, with 37 million women aged above 40 years. In 2000, the Japanese Ministry for Health, Labour and Welfare mandated mammography for all women over 50. Despite government promotion of breast cancer awareness, screening participation compared to western countries is relatively low, with 14 million mammograms performed each year.

In 2007, an independent feasibility study estimated a conservative market potential of the Fermiscan test in Japan rising to 2.9 million tests in 2015.

Europe

We are encouraged by preliminary results of a 123-patient, independent trial of the Fermiscan Test in Italy. This was managed by Piedmont Centre for Oncological Prevention (CPO) National Health Service Unit, ASL to5. This Centre conducts about 250,000 mammograms per year, serving the 4 million population of Piedmont and nearby areas.

According to the report, "with the synchrotron diffraction test, which can be done annually, there is a rate of 'false negatives' much lower than those normally present in an organised screening programme."

Analysis recognises the benefits of the test to women's health. The report states, "The saving in anxiety for the general population and the ability of existing services to focus on the important cases would be a great benefit." Particularly encouraging is the conclusion "...from the preliminary results there emerges also the possibility of a new paradigm in screening...it appears to recognise systemic change and therefore enables management of the disease at an even earlier stage."

The report is encouraging and concludes with the intention to further evaluate the Fermiscan Breast Cancer Test in a multi-centre study in Europe. A positive outcome would provide a strong platform for commercial launch of the Fermiscan Test in Italy, and subsequently other European countries.

Fermiscan's process to acquire CE Mark registration for the Fermiscan Test is under way. The CE mark shows conformity with general European health and safety requirements, and ensures easier commercial access into the broader European market. Registration is expected to be granted in mid-2009.

South-East Asia

The Singaporean clinical trial with leading medical specialist, the KK Breast Centre of the KK Women's and Children's Hospital is continuing. More than 100 patients are expected to complete the trial. A successful trial will assist Fermiscan's entry into the Singaporean and South-East Asian markets and is part of the company's strategy to enter international markets.

Fermiscan has granted licences to market the test in Hong Kong, Singapore, Malaysia, Indonesia, Thailand and Vietnam, providing access to a potential market of 115 million people.

USA

We are continuing to evaluate the option and priority of seeking FDA fast track status to accelerate regulatory approval in the United States. Given the other priorities and opportunities available to Fermiscan, this enormous and exciting market for now needs to be placed behind our other priorities as outlined above.

Extending application of Fermiscan's technology

During the year, Fermiscan continued to explore the potential of its technology to support early detection of other diseases such as prostate cancer. This includes clinical research with leading hospitals and specialist cancer centres in Australia and internationally.

Patents

Fermiscan owns the technology behind the Fermiscan Test, and an international family of patents protect our intellectual property. A number of applications for further patents are in process in global markets.

Synchrotron access

In February 2009, Fermiscan commenced a two-year agreement with the Australian Synchrotron, one of the most advanced synchrotrons in the world. This enables scheduled weekly access to Australia's newest and most advanced major research facility and provides significant cost and logistics benefits compared to our use of synchrotron facilities in the United States. Fermiscan has also secured further beam time at the European Synchrotron Radiation Facility in France and has a scientific team operating at the facility.

Financial update

Total revenue for the year was \$3.7 million (2007: \$1.4 million), including \$1.0 million from interest on cash and \$2.7 million revenue from Sydney Breast Clinic. At 31 December 2008 the company had cash of \$7.5 million (2007: \$20.9 million).

Total expenses were \$12.9 million (2007: \$8.5 million) including scientific and synchrotron operation expenses of \$4.1 million (2007: \$3.4 million). Of this, US synchrotron costs were \$3.3 million. Current cash flows reflect significant cost reductions from relocating synchrotron operations to Australia. Research and development costs are lower now the FER 2k trial is complete, and non-essential expenditure is being tightly controlled. The company's loss for the year was \$9.2 million (2007: \$7.4 million loss), including a \$0.5 million loss resulting from the initial acquisition of Sydney Breast Clinic.



Managing Director's Report

Outlook

Fermiscan is well positioned to capitalise on the positive results of Australian and international trials, and, our key objective will be to ensure a successful phased commercialisation of the Fermiscan Test in 2009. This important milestone will transform Fermiscan's operations, as we generate revenue from our technology for the first time.

The Sydney Breast Clinic will provide patient revenue and important input in helping Fermiscan and the medical community to position the test within current clinical practice.

Internationally, we are developing momentum with progress toward licencing the Fermiscan Test in the important Japanese market, and moving quickly to support encouraging clinical results in Europe. We are taking steps to support regulatory approval and commercialisation in these and other international markets. Our ongoing clinical research programme continues in Australia, Italy, Japan and Singapore. While we are managing costs tightly during this time, we remain focused on the commercialisation of the Fermiscan Test.

Throughout, Fermiscan has worked closely with the medical community, and I would like to pay tribute to the excellent contributions from the many medical, diagnostic and clinical staff and participants in our trials, as well our relationships with the broader community, who are helping us to build a successful future.

We remain committed to our obligations to our more than 4000 shareholders in what has been a difficult financial year not only for Fermiscan but for many companies and their shareholders. We appreciate and respect your support.

Finally, I would like to thank the efforts of our management and employees, and congratulate you for your dedication and hard work.

David Young
Managing Director

“Research underpins all the advances in breast cancer diagnosis, treatment and on-going care. Breast cancer is most effectively treated when detected early and this new technology from Fermiscan is showing very strong results.

Further testing will confirm the benefits and potentially offer improved survival for women of all ages. We look forward to the results from the clinical research to be undertaken both overseas and in Adelaide.”

Sue Murray, CEO National Breast Centre Foundation

Science Report

Summary

The main scientific activity in 2008 was the completion of the FER 2k trial, the instigation of further trials, the optimisation of synchrotron beam lines and the implementation of systems for the reproducible performance of the test.

Breast cancer testing

It has become apparent that deaths from breast cancer have reduced over the past decade. This reduction in mortality has been attributed in part to earlier diagnosis through the availability of screening programmes. Various randomised controlled screening mammography trials have reported reductions in cancer mortality ranging from 20% to 40% in the target age group of 50-69. Unfortunately, no diagnostic or screening test is presently available for the detection of breast cancer in younger women. Newer diagnostic methods which enhance sensitivity and specificity of current screening tests are clearly needed to identify women with early stage disease and to supplement the proven role of mammography and breast ultrasound.

Relationship between health and hair

There is a recognised association between a person's overall health and the state of their cutaneous adnexae (hair and nails). Abnormalities in hair and nails can result from alterations in nutrient supply, inflammation, toxins, heavy metals and physical damage. Many of these may be affected by a systemic disease or by a localised malignancy through mechanisms yet to be fully understood (Hinds and Thomas, 2008).

The examination of hair fibres has long been established in forensic medicine with the recognition of detectable changes due to chemical effect. The examination of hair and nails may thus provide important diagnostic information on the patient's state of health as is currently obtained from more traditional biological samples such as serum.

Hair is a unique skin appendage that is characteristic of mammals. Cells of the hair shaft synthesise around 100 different hair keratins which form into intermediate filaments (French and Hewish, 1986; 1987). The structural arrangement of keratin intermediate filaments in the hair fibre can be determined using X-ray diffraction. It was intensively studied in the first half of the 20th Century (Popescu and Hocker, 2007). For example, Astbury and co-workers (Astbury and Street, 1931; Astbury and Woods, 1933) used X-rays to demonstrate that hair contains a crystalline phase. Pauling et al (1951), proposed the alpha-helical secondary structure of hair structure to account for the resulting X-ray diffraction patterns. Recent micro X-ray investigations show that the alpha-helices form an amorphous structure when produced in the bulb, but, along the first 1,400 nm, they organise to form the crystalline phase (Rafik et al, 2006).

Association between hair structure and breast cancer

In 1999 James and colleagues reported differences in the small angle X-ray scattering (SAXS) patterns of hair from individuals with breast cancer compared to healthy subjects (James et al, 1999). The SAXS patterns of hair from cancer patients contained a ring of comparatively low intensity which was superimposed on the normal -keratin pattern obtained from healthy control subjects.

Subsequent papers from the same group reported SAXS analysis results of blinded human samples which were consistent with the initial publication (Meyer and James, 2001; James et al, 2005). The later paper reported on the results of 503 blinded hair sample analyses and demonstrated a sensitivity of 100% and a specificity of 86% (by comparison to mammography) for breast cancer (James et al, 2005). Pre-clinical data supporting the finding was presented using an animal model of breast cancer.



Science Report

Several groups independent of James attempted to replicate the original findings but were unsuccessful (Briki et al, 1999; Amenitsc et al, 1999; Schroer et al, 1999; Chu et al, 1999; Howell et al, 2000; Askirov et al, 2001; Laaziri et al, 2002). This appears to have been because of technical issues such as the method of sample collection, the physical state of the hair, the positioning of the fibre in the beam, the method of image analysis and the interpretation of data (James, 1999; James, 2001; James, 2003a,b,c).

In 2005, a study of hairs from cancer and normal subjects by Fourier transform infrared attenuated total reflection (FTIR-ATR) provided independent validation of the underlying hypothesis that hair from individuals with breast cancer exhibits a structural abnormality (Lyman and Murray-Wijelath, 2005).

As James et al (2005) stated, "... as a non-invasive screening test, X-ray diffraction of hair would not only identify the presence of breast cancer at a much earlier stage than any other current method, but could also confirm the success of treatment. A screening test of this kind would be completely non-invasive and totally user-friendly and could be used to screen women of all ages safely, particularly those under 40 years of age where routine screening mammography is not recommended".

In January 2008, the first replication of the finding independent of the original author was reported by two Fermiscan scientists (Corino and French, 2008). They reported the results of analysis of hairs from 39 women, 15 of whom had confirmed breast cancer. When hairs that exhibited patterns of damage were excluded, they reported a sensitivity of 86% and a specificity of 81%. The results were less accurate than reported by James and colleagues (James et al, 1999; James et al, 2005) but they confirmed an association between the appearance of a ring with a molecular spacing determined to be 4.76 ± 0.07 nm and the presence of breast cancer.

In June 2008, Fermiscan completed a much larger blinded trial, the FER 2k trial, in which results of analysing hair samples from 1796* women attending radiology clinics in Sydney and Melbourne were assessed. In this group, 39 women were diagnosed with breast cancer, of whom 27 were identified by their X-ray diffraction pattern. In women under 70, the proportion increased to 74%, indicating that the hair test may be more accurate for younger women. Additionally, the test had a 99.5% negative predictive value. The data is presented in Table 1.

Table 1. The FER 2k trial

Feature	All participants (n=1796)	Participants aged <70 (n=1627)
Sensitivity	64%	74%
Specificity	77.6%	78%
Positive predictive value	6%	5.4%
Negative predictive value	99%	99.4%
Accuracy	77.3%	77.9%

* A further 213 clinically negative samples were collected in a second trial and analysed together with the 1796 FER 2k samples, but were subsequently excluded from the final FER 2k analysis as they were not collected under the FER 2k protocol. Their exclusion did not change the reported statistics.

Other breast cancer trials

Italy

After having studied the published literature relating to the Fermiscan Hair Test, clinicians in the Piemonte region of Italy contacted Fermiscan to institute a blinded clinical trial of the Fermiscan Hair Test. They selected as the study population women who were invited to present to the local clinic for a second level of screening. The protocol of the trial is predicated on the basis of a statistical power of 95% and a recruitment of 120 cases at second level of screening. This study therefore is calculated to be equivalent to a screening population base of approximately 3,500 women.

To date 123 cases have been analysed and of these, 36 had breast tumours or lesions at high risk as determined by cytology. 30 of these 36 cases were judged positive by the Fermiscan Hair Test ("True Positives") and one case was classified as indeterminate as the image displayed irregular characteristics.

Of the 66 cases classified as negative by radiologists from mammography-ultrasound-clinical or biopsy examination, 21 cases were positive by the hair test ("False Positives") and 44 were negative by the hair test ("True Negatives"). Of the 21 false positives, 11 cases had a high genetic risk.

The final results will be published including an analysis of the test with the clinical information from the national database (SQTM) which manages the collection of data from the national screening programme.

The statistical results are summarised in Table 2.

Table 2. Results of Italian trial

	All participants (n=123)
Sensitivity	83%
Specificity	76%
Positive predictive value	59%
Negative predictive value	92%
Accuracy	60%

The comment from the Principal Investigator on the trial, Dr Salvatore Polizzi, was "The results are well within the standards of quality proposed by the *European Guidelines for Quality Assurance in Breast Cancer Screening and Diagnosis. (Fourth Edition)*".

Singapore

Fermiscan commenced a clinical trial in Singapore in January 2008. This trial is supported by the KK Breast Centre of the KK Women's and Children's Hospital, the largest women's and children's medical facility in Singapore. A successful trial will assist regulatory endorsement of the Fermiscan Test in Singapore and is part of the company's strategy for the international delivery of the Fermiscan technology. Progress has been slow in recruiting patients in this trial.



How the Fermiscan Hair Test is performed

Hair collection and handling

Hairs are cut from the region behind the ear, as close to the skin as possible, and placed in purpose-designed plastic specimen containers ("Pods"). X-ray diffraction analysis requires six hairs to be removed from the container and loaded onto two specially designed sample holders (FermiSlides™) which hold 3 hair fibres per slide (Fig. 1). Care is taken during the loading process to ensure the fibre is not twisted or stretched. Once loaded, the hairs are examined by fluorescence microscopy to identify hairs that may potentially be dyed. Any hairs assessed of being chemically modified by dyes are removed from the slide and replaced with more hairs from the sample pod. The replacement hairs are then examined by fluorescence microscopy to ensure they are not dyed. The FermiSlides are transported to a beamline in a third generation synchrotron (a large particle accelerator designed to emit a continuous spectrum of light of various wavelengths and intensities by accelerating electrons to close to the speed of light then bending them around a circular path). The X-rays required for the Test are filtered and channelled down a beamline into one of the experimental hutches in the synchrotron facility.

X-ray diffraction

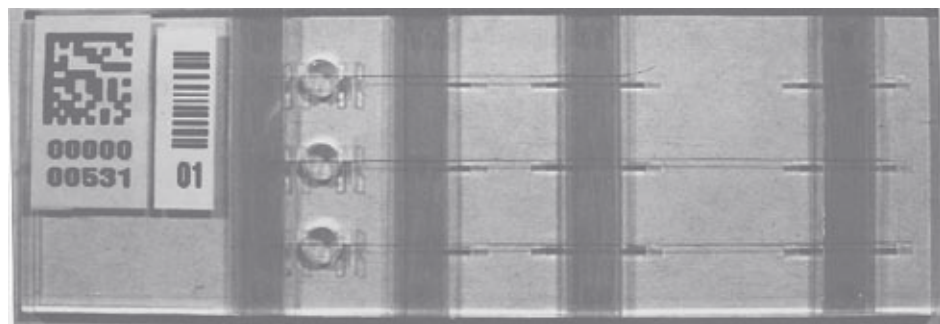
The FermiSlides are mounted on a motorised device with an automated vision system which enables each sample to be precisely located in the X-ray beam (Fig. 2). Hairs were held on a FermiSlide™ with the axis of the hair in the parallel plane and at right angles to the X-ray source.

Each fibre is exposed to a total of approximately 1×10^{14} photons at a wavelength of approximately 1.12 \AA . The resultant diffraction patterns are collected on an X-ray sensitivity CCD detector and analysed using image processing software designed for X-ray diffraction image analysis.

Results

Breast cancer is associated with the presence of a ring in the diffraction pattern which is superimposed upon the classical alpha-keratin pattern (Fig. 3).

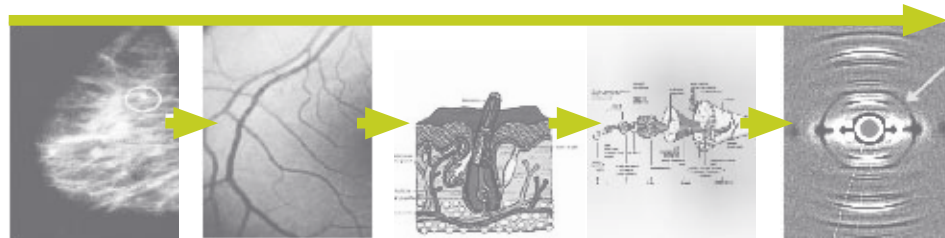
Fig.1. The FermiSlide™, with three hairs mounted.



The mechanism – How can breast cancer be detected through hair?

Fermiscan's scientific team has proposed the following as a possible mechanism:

- Breast tumours (1) are known to secrete growth factors (cytokines) and other molecules into the blood stream (2)
- A hair follicle (3) needs a blood supply to provide the nutrients needed to produce the highly ordered structure of the hair fibre (4)
- The presence in the blood of cancer-derived molecules could affect the way the hair follicle produces the hair fibre, leading to an alteration in the molecular structure
- Synchrotron X-ray diffraction is used to examine the molecular structure of hair and can detect alterations to its structure (5)



1

Breast tumour:
secretes
molecules into the
blood stream

2

Blood vessels:
carry tumour
molecules around
body, including to
the hair follicles

3

Hair follicle:
tumour molecules
affect follicle
function and
regulation of
hair fibre

4

Hair fibre:
altered
arrangement of
alpha-keratin in
intermediate
filaments

5

X-ray diffraction:
detects structural
change in
alpha-keratin in
hair fibres

Patents

In 2008, Fermiscan had further patents granted in the European Union and Japan.



Fig. 2 FermiSlides™ being used on a synchrotron beamline for X-ray analysis of hair for the detection of breast cancer.

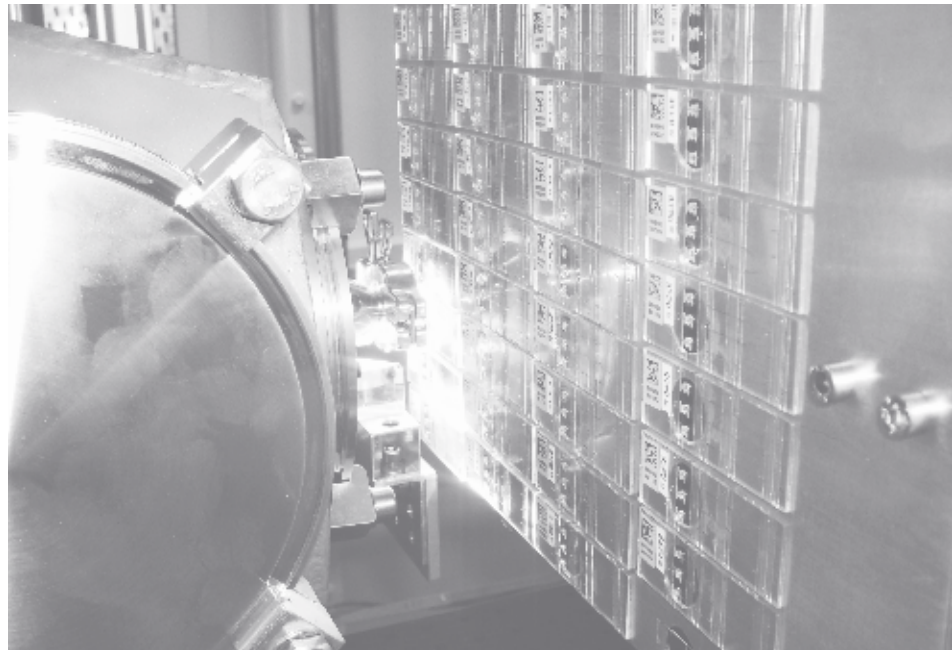
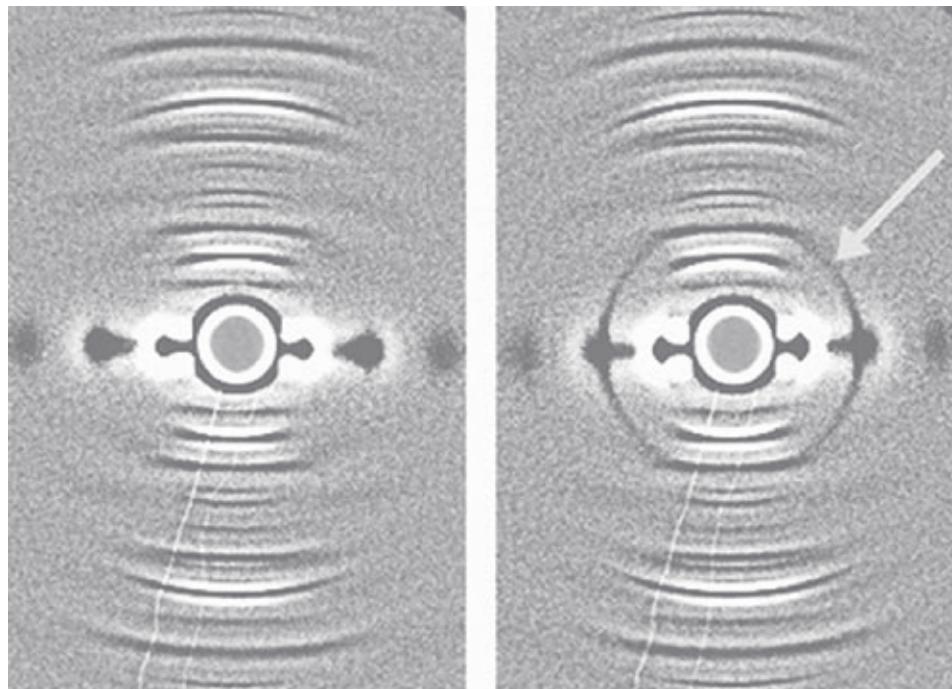


Fig 3. Diffraction patterns of hair.



- A. Normal alpha-keratin pattern.
- B. Pattern with an additional ring. This was obtained from a patient with breast cancer.

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Synchrotron facts

The X-rays used for the Fermiscan test are ideally generated in a synchrotron – a particle accelerator that produces very intense and finely focussed X-ray beams, allowing a rapid exposure of each hair sample. Fermiscan recently commenced working at the Australian Synchrotron in Melbourne (synchrotron.org.au).

Synchrotrons comprise a number of component parts which are critical in producing the high-energy X-rays that are used for the Fermiscan test.

Producing brilliant X-ray beams starts with heating a cathode to 1100°C. The electrons produced by this process are accelerated to 99.9997% of the speed of light by the linear accelerator (linac). The electrons are then transferred to the booster ring, where they are increased in energy. They are then transferred to the outer storage ring.

The electrons are circulated around the storage ring by a series of magnets separated by straight sections. As the electrons are deflected through the magnetic field created by the magnets, they give off electromagnetic radiation, so that at each bending magnet a beam of synchrotron light is produced.

These beams can be captured and focussed to a specific wavelength appropriate for a particular technique.

It was found that the intensity of light can be significantly increased by the use of 'insertion devices' in the straight sections of the ring. There are two classes of insertion devices – a multipole wiggler (MPW) and an undulator.

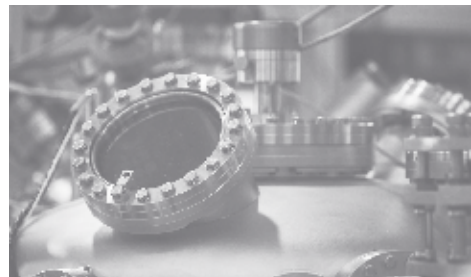
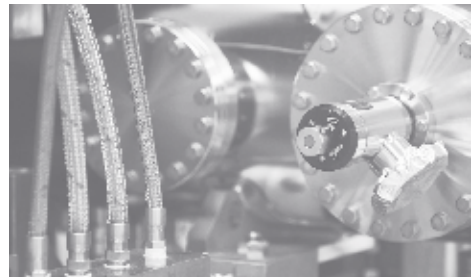
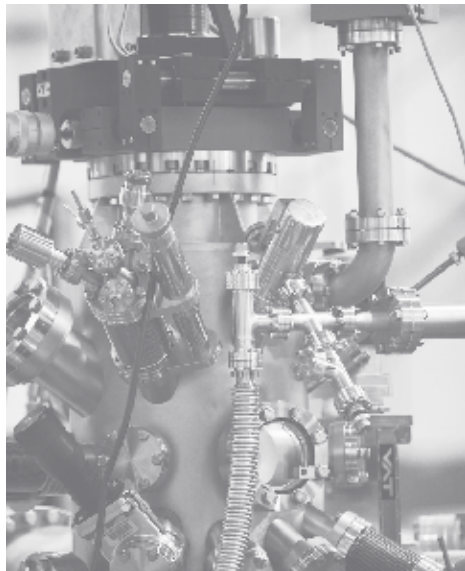
Synchrotron storage rings optimised for insertion devices are called "third-generation" light sources. The insertion devices maximize those X-ray beam qualities, flux and brilliance, that are needed for the Fermiscan test.

The light is channelled into beamlines. They comprise crystal and/or mirror optics designed to tailor the beam for specific types of experiments. These optics select out about one part per million from the energies (or wavelengths) that are carried by the insertion device beam and pass that energy down the beamline to a lead-lined, radiation-proof experiment station that contains the sample being analysed; additional optics that may be needed to analyse and characterize the scattering, absorption, or imaging process; and detectors to collect data from the interaction of X-ray beam and sample.

The Australian Synchrotron is an advanced 'third generation' design. It uses the three different types of light sources (bending magnets, multipole wigglers and undulators) to enable a wide range of advanced experiments or measurements to be carried out. For more information, visit www.synchrotron.org.au.



© Peter Bennets



Inside Australian Synchrotron showing the experimental floor and a close up view of synchrotron equipment.

Sydney Breast Clinic



Sydney Breast Clinic is one of Australia's largest diagnostic centres, testing over 10,000 women every year.

More than 3,000 general practitioners refer patients to the clinic for specialist care.

Established in 1978, the clinic's staff of breast care specialists includes breast surgeons, breast physicians, radiologists, pathologists, radiographers, sonographers and nurses.

The clinic has a history of innovation in breast cancer care and was the first to add ultrasound to clinical examination and mammography in Australia.

Screening and diagnosis is provided using the gold standard Triple Test (medical history and clinical examination, mammography and ultrasound imaging, and non-excision biopsy) with the results generally available on the same day.

Prior to acquisition by Fermiscan in June 2008, investment in new clinical facilities, digital imaging and information systems improved capacity and services.

One in eight women will develop breast cancer in their lifetime



Early detection saves lives



Annual Financial Report

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Directors' Report

The directors present their report together with the financial report of the consolidated entity consisting of Fermiscan Holdings Limited the entities it controlled, for the financial year ended 31 December 2008 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal activities

Fermiscan's principal activity is the commercialisation of an innovative non-invasive diagnostic test for the detection of breast cancer. The test is based on the discovery by an Australian scientist that a change can be detected in the molecular structure of hair from women with breast cancer and this change can be identified by using diffraction of X-rays generated in a synchrotron.

This test can potentially provide early detection of breast cancer with benefits for women's health including increased survival and treatment options. The greatest application for the Fermiscan Test is in women under 70 years of age and in particular for younger women, where mammography is generally unsuitable or not recommended, or where women are not being screened today.

The Fermiscan Test is unique for several reasons. It is the first cancer test to use hair as the biological sample and it is the first human screening test to utilise synchrotron X-ray diffraction technology.

The rollout of the Fermiscan test is being undertaken in two distinct phases. The first is the research, development and scientific validation phase, which has focused on performing patient trials and scientific studies to characterise and optimise the Fermiscan Test in "real world" conditions. The second is the commercialisation phase, which is now well underway following successful results in the clinical trial programme.

Fermiscan intends to commercialise this simple test for the presence of breast cancer through a phased commercial launch of the test in Australia in 2009.

Results

The consolidated loss after income tax attributable to the members of Fermiscan Holdings Limited was \$9.244 million (2007: \$7.384 million).

Review of operations

Options granted for Japan and Korea

In March 2009 Fermiscan entered into an Option Agreement granting Hitachi Chemical Company Limited an exclusive license on exercise of the option to establish and operate the Fermiscan Breast Cancer Test in Japan and Korea.

The Agreement requires the completion of a feasibility study by Hitachi Chemical over the coming six months. Fermiscan will work with Hitachi Chemical to assist in all aspects of the feasibility study and jointly develop the commercialisation plan during the option period.

Independent Italian study results confirm potential of Fermiscan Breast Cancer Test in Europe

Fermiscan recently announced the results of an independent Italian study undertaken by an Italian National Health Service Unit, ASLto5, under the supervision of the Centre for Oncological Prevention of the Piemonte Region which approved the study. The Italian study results, indicate sensitivity (ability to accurately detect cancer) of 83% and specificity (ability to accurately detect the absence of cancer) of 76%. These results compare favourably with all Fermiscan Breast Cancer Test results to date.

A copy of the report from the study was provided on request to the President of the Health Committee of the Senate (Parliamentary Health Committee) in Rome. The report is encouraging and concludes with the intention to further evaluate the Fermiscan Breast Cancer Test in a multi-centre study to confirm the relevance of this screening method in a European context.

User agreement with the Australian Synchrotron in Melbourne secures beam time

Fermiscan concluded a commercial user agreement with the Australian Synchrotron in Melbourne in February 2009. The agreement covers two years and provides for scheduled weekly access at the synchrotron which is Australia's newest and most advanced major research facility. The Fermiscan Breast Cancer Test uses synchrotron X-rays to detect altered molecular structure of hair which is associated with the presence of breast cancer.

The Australian Synchrotron is a world-class facility with a rapidly growing reputation for producing high-quality results. By the end of 2009, it will be the largest scientific user facility in the southern hemisphere. The synchrotron produces a highly intense source of light ranging from infrared to monochromatic X-rays. The unique properties of synchrotron light mean that results are far superior in accuracy, clarity, specificity and timeliness to those obtained using conventional X-ray equipment.

The Australian Synchrotron is one of the most advanced in the world and will further Fermiscan's scientific development and commercialisation of the Fermiscan Breast Cancer Test.

Fermiscan clinical trial programme

Fermiscan announced the results of a large scale FER 2k clinical trial programme in May 2008 which compared results from mammography and ultrasound with the Fermiscan Test.

- The analysis showed that the test correctly identified breast cancer in women in 74% of the cases where the patient was less than 70 years of age
- The analysis of data from the trial programme showed that the Fermiscan Test has a negative predictive value of 99.5% in correctly calling almost 1,400 patients negative for breast cancer where the patient was less than 70 years of age
- The test correctly identified as negative for breast cancer 80 per cent of patients referred for a biopsy as a result of a suspicious mammogram or ultrasound. This highlights the potential value of the test in conjunction with current screening methods

The results demonstrated that the most significant potential application for the Fermiscan Test is for women less than 70 years of age and in particular for younger women, where mammography is generally less effective, or not generally performed (in women under 50). It is anticipated that the test will be initially used for younger women and those not undergoing current screening as an adjunct to existing screening tests for breast cancer.

Operational outcomes from the trial programme included the optimisation of synchrotron beam lines to significantly improve resolution of the X-ray diffraction images, automation improvements to significantly enhance throughput, which will boost commercial capacity, securing the support of key medical and patient advocate groups, and development of expertise and know-how in hair collection and handling, loading and transportation of hair samples, and refinement of diffraction pattern analysis. Fermiscan's commitment to ongoing development and improvement of hardware, software and procedures will underpin the commercial delivery of the Fermiscan technology.

The trial programme was overseen by an independent Human Research Ethics Committee which is registered with the National Health and Medical Research Council.

Acquisition of Sydney Breast Clinic

Fermiscan acquired Sydney Breast Clinic Pty Limited in June 2008. The Clinic has been operating for over 30 years and is one of the largest diagnostic breast clinics in Australia, testing over 10,000 women annually who are referred by more than 3,000 general practitioners.

Sydney Breast Clinic commenced a trial of the Fermiscan Test aimed at familiarising healthcare practitioners and patients with the Test in November 2008. The trial is currently continuing and information from the trial is being used to further Fermiscan's understanding of the technology, allowing further refinements and developments.

The trial is a key step in Fermiscan's programme aimed at making the test commercially available to Australian women in 2009.

The Sydney Breast Clinic uses the gold standard triple test (medical history and clinical breast examination; mammography and ultrasound imaging; biopsy) and offers same day diagnosis and screening. The multidisciplinary team at the Clinic has over 55 staff including breast surgeons, breast physicians, radiologists, pathologists, radiographers, sonographers and nurses.

For Fermiscan, the acquisition of Sydney Breast Clinic has a strategic fit that aligns the objectives of both groups to improve health outcomes for women. Sydney Breast Clinic was a major participant in Fermiscan's successful validation trial. The continued assistance of Sydney Breast Clinic will significantly help the development and commercialisation of the Fermiscan test for breast cancer.

Sydney Breast Clinic had built new clinical facilities and installed new digital imaging and information systems in the period directly before the acquisition by Fermiscan. The significant capital improvements have increased the capacity of the clinic. In addition processes and organisational changes have contributed to potential profit improvements.



Patents

Fermiscan has an international family of patents covering our technologies and has lodged a number of applications for further patents to protect our ongoing inventions. The existing global patents provide an opportunity to develop tests for other pathological states.

In 2008 patents were granted in Japan and the European Union.

Fermiscan Test development path

The Fermiscan Test development path in Australia and overseas includes

- Increasing Fermiscan's global footprint and international expansion plans including completion of clinical research with leading hospitals in Japan, Italy and Singapore as well as the Ashford Cancer Centre, a leading cancer clinic in Adelaide
- Conducting a trial of the Fermiscan Test in patients attending the Sydney Breast Clinic in addition to the normal diagnostic and screening practices provided to those patients. Medical staff can compare the Fermiscan Test results to patient imaging results. This clinical study is an important step in Fermiscan's programme of making the test widely available to Australian women and commercialisation in Australia
- Commencing clinical research in Japan shortly, with the assistance of one of Japan's leading specialist breast cancer hospitals as a process towards regulatory approval
- Undertaking a similar multi-centre Italian study in order to progress commercial development with Italy as the first country to launch in Europe
- Acquiring CE Mark registration for the Fermiscan Test in Europe which is expected to be granted mid 2009
- Completing a 100+ patient clinical trial in Singapore with the support of the KK Breast Centre of the KK Women's and Children's Hospital, the largest women's and children's medical facility in Singapore. Successful trial completion will assist Fermiscan's entry into Singapore and south-east Asian markets and is part of the company's strategy for the international delivery of the Fermiscan technology

Cash position

The cash flow for the year to December 2008 includes the cash flows from Sydney Breast Clinic which was acquired by Fermiscan on 13 June 2008. Receipts from customers of Sydney Breast Clinic were \$2.7 million in the period since acquisition.

The group net operating cash outgoings for the year were \$8.3 million and included \$3.3 million for scientific facilities and synchrotron beam line rental at Chicago in the United States. The scientific operations support the current domestic and international clinical studies and contribute to the establishment of synchrotron scientific capability for the future.

The monthly net operating cash outgoings for the year to December 2008 were \$0.7 million per month. The overall net cash position in the year to 31 December 2008 decreased by \$13.4 million from \$20.9 million to \$7.5 million and included the purchase price for Sydney Breast Clinic of \$3.5 million in addition to \$2.2 million of Sydney Breast Clinic debt retirement.

In line with the company's objective to ensure prudent management of cash resources, future cash flows will reflect significant cost reductions in synchrotron operations following the move to the Australian Synchrotron (now that it is operational) and reduced clinical trial costs as a result of the successful completion of the FER 2k trial in 2008.

In addition non-essential expenditure has been strictly controlled and development aspects such as spending on patent development of non core patents such as the Analytical Method & Apparatus (the Bevan Reid patents) has ceased for the time being.

Spending is focused on the commercialisation of the Fermiscan Breast Cancer Test.

Significant changes in the state of affairs

During the financial year there was no significant change in the state of affairs other than that referred to above and in the financial statements and accompanying notes.

After balance date events

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely developments

The consolidated entity will continue to pursue its operating strategy to create shareholder value through the commercialisation of it's a non-invasive diagnostic test for the detection of breast cancer.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Dividend paid, recommended and declared

No dividends were paid, declared or recommended since the start of the financial year.

Share options

Options granted during the year were:

- 300,000 options to acquire ordinary shares were granted on 28 of August 2008 with an exercise price of 35 cents and were issued out of the Employee Share Option Plan. The options vest over two years and expire in four years from the grant date
- 2,000,000 options to acquire ordinary shares were granted on 13 June 2008 with an exercise price of 69 cents. The options were issued to the vendors of Sydney Breast Clinic Pty Limited at market price. The options vest over two years and expire in three years from the grant date
- 5,000,000 options to acquire ordinary shares were approved at a shareholders general meeting on 10 December 2008 and have an exercise price of 32 cents. The options vest over two years and expire in five years from the grant date

Other than the above, there were no issues, repurchases and repayments of debt securities or equity securities in the year.

Further details regarding options granted as remuneration are provided in the Remuneration Report below.

Fermiscan has a Dealing in Securities Policy and an overview of the policy is available on the company website.



Director's Report

Shares under option

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

Number of unissued ordinary shares under option	Issue price of shares	Latest expiry date of the options
37,892,000	30 cents	9-Oct-09
2,000,000	30 cents	19-Oct-09
2,000,000	30 cents	17-Nov-09
4,300,000	30 cents	1-Jul-10
6,600,000	30 cents	9-Oct-11
6,450,000	30 cents	9-Nov-11
450,000	\$1.50	1-Feb-10
2,000,000	69 cents	13-Jun-11
300,000	35 cents	21-Aug-12
5,000,000	32 cents	10-Dec-13
66,992,000		

No option holder has any right under the options to participate in any other share issue of the company, other than for bonus issues.

Following the approval at the shareholders meeting on 8 May 2007, options were issued to the Trustees of the Fermiscan USA Option Plan to acquire up to 5 million ordinary shares at \$1.50 per share to be vested in senior executives of the Fermiscan Group who are resident in the USA to assist in the attraction, retention and motivation of such senior executives. The executives to be granted tranches of those options to expire no later than 7 May 2012 are to be selected by a committee of the Board of Directors of the Company. At the date of this Report no such options have been vested and it is not anticipated that they will be vested due to the change in geographic use of current synchrotron facilities.

Shares issued on exercise of options

No ordinary shares of Fermiscan Holdings Limited were issued during or since the end of the financial year as a result of the exercise of an option. There are no amounts unpaid on shares issued on exercise of options.

Indemnification and insurance of Directors and officers

The Company has entered into agreements to indemnify Directors and Officers of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as Directors or Executive Officers unless the liability relates to conduct involving lack of good faith.

The Company has agreed to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity. The Directors' and Officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a Director or Executive Officer unless the conduct involves a willful breach of duty or an improper use of inside information or position to gain advantage.

The insurance policy does not allow specific disclosure of the nature of the liabilities insured against or the premium paid under the policy.

The company has not indemnified or agreed to indemnify the auditor of the company.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who is a director of Fermiscan Holdings Limited at the end of the financial year is provided below, together with details of the company secretary as at the year end.



Gary K Garton
BComm

Experience and expertise

Mr Garton has been Chairman since the listing of the company in 2006.

Mr Garton was appointed to the board of Fermiscan Holdings Limited on 9 October 2006. Mr Garton is chairman of the board and also chairs the Remuneration and Nomination Committee and the Governance Committee.

He is an experienced Chief Executive Officer and public company director with a domestic and international background in the service, software and manufacturing industries. Mr Garton was President and Chief Executive Officer of Brinks Inc. for 10 years, the largest security transportation and armoured car company in the US. Prior to moving to the US he was an Executive Director of Brambles Holdings Limited. Mr Garton was Chief Executive Officer and Managing Director of the gaming company Aristocrat Leisure Limited and successfully led Aristocrat through its initial public offering and listing on the ASX. Mr Garton is Chairman of the publicly listed Odyssey Gaming Limited.

Committee membership and special responsibilities

- Chairman of the board
- Member of the Audit and Risk Committee
- Chairman of the Remuneration and Nomination Committee
- Chairman of the Governance Committee

Directorships in listed companies in the last three years

- Chairman, Odyssey Gaming Limited



David C Young MBA

Experience and expertise

Mr Young has led the Fermiscan management team since its formation in 2006.

Mr Young became a director of Fermiscan Holdings Limited on 9 October 2006. Mr Young is also a member of the Audit and Risk Committee, the Remuneration and Nomination Committee and the Governance Committee.

He was previously Group Managing Director and CEO of Australian Pharmaceutical Industries Limited, an integrated health services business operating across Australia and New Zealand with a turnover in excess of A\$3 billion. Prior to this, Mr Young was Group Managing Director at Hallenstien Glasson Holdings Limited, a New Zealand based specialty fashion retailer with over 100 stores in New Zealand and Australia. He spent 10 years abroad in senior international roles at Dairy Farm International running multiple businesses in various South East Asian countries. Mr Young also had 12 years with Target Australia Pty Limited in State and National roles in buying and marketing. He holds an Executive MBA from the Darden Business School of the University of West Virginia.

Committee membership and special responsibilities

- Managing Director
- Member of the Audit and Risk Committee
- Member of the Remuneration and Nomination Committee
- Member of the Governance Committee

Directorships in listed companies in the last three years

None



Director's Report



Dr Ronald Shnier
MBBS, FRACR

Experience and expertise

Dr Shnier became a director of Fermiscan Holdings Limited on 9 November 2006 and the Chief Medical Officer in October 2008. Dr Shnier is chairman of the Audit & Risk Committee and is a member of the Remuneration and Nomination Committee.

He is a practising Radiologist and Director of ST George MRI as well as the President of the Australian Diagnostic Imaging Association. In the past he has been Director of Symbion Imaging Clinical Research Imaging Centre and National Director of Research and Professional Development at Symbion Imaging, divisions of Symbion Health Care Limited, General Manger Diagnostic Imaging for Symbionhealth. Prior to this Dr Shnier was Director MRI Services Sydney Imaging Group and Chairman Sydney Imaging Group and has held a number of prominent medical roles at leading hospitals.

Committee membership and special responsibilities

- Member of the Remuneration and Nomination
- Member of the Audit and Risk Committee
- Chairman of the Scientific and Medical Advisory Board

Directorships in listed companies in the last three years

None

Mr Gregory C West

Chartered Accountant

Mr West was appointed as Company Secretary on 9 October 2006.

Experience and expertise

Mr West has worked as a Company Secretary and Chief Financial Officer in leading services organisations. Mr West was appointed as Company Secretary on 9 October 2006.

Directorships in listed companies in the last three years

None

Directors' meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

	Board of Directors		Audit & Risk Committee		Remuneration & Nomination Committee		Governance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Gary Garton	14	14	6	6	4	4	3	3
David Young	14	14	6	6	4	4	3	3
Dr Ronald Shnier	14	12	2	2	4	3	—	—
Ian Holman*	10	10	4	4	—	—	—	—

* Resigned on 5 September 2008

Directors' interests in shares or options over shares

Directors' relevant interests in shares of Fermiscan Holdings Limited or options over shares in the company are detailed below.

Directors' relevant interests in:	Ordinary Shares of Fermiscan Holdings Limited	Options over shares in Fermiscan Holdings Limited
Gary Garton	41,140	3,300,000
David Young	1,037,430	10,000,000
Dr Ronald Shnier	nil	8,300,000

Directors' interests in contracts

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors Report.

Dr Shnier became the Chief Medical Officer of Fermiscan Holdings Limited in October 2008 and at a general meeting of shareholders on 10 December 2008 was granted 5,000,000 options.

No director has entered into a material contract with the company or consolidated entity (other than an employment contract) since the end of the previous year and, there were no material contracts involving directors' at 31 December 2008.

Auditor's independence declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-audit services

Non-audit services are approved by audit committee and approval is provided in writing to the board of directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:

	2008 \$'000	2007 \$'000
Taxation services and corporate secretarial services	127	115

Remuneration report

Remuneration Policies

The board policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole, in consultation with the board Remuneration & Nomination Committee. The board obtains professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

For directors and specified executives, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future aside from normal negotiations on contracts as they approach their conclusion and the normal annual review processes expected in July each year. Due to the development nature of the business the remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns and incentives alone would not be beneficial to the long-term creation of wealth by the company for shareholders.

Non-executive directors receive fees and share-based remuneration.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for directors by resolution. Directors' share-based remuneration was voted on by members at general meetings.



Directors' and Executives' compensation

(a) Details of directors and Key Management Personnel

(i) Directors and executives

Gary K Garton	Chairman – Non-Executive director
David C Young	Managing Director
Dr Ronald Shnier	Non-Executive director until appointment as Chief Medical Officer on 17 October 2008
Ian W Holman	Resigned 5 September 2008 – Non-Executive director
Leon P Carr	Corporate Strategist
Gary Corino	Chief Scientific Operations Officer
Dr Peter French	Chief Scientific Officer
Richard M Toltz	General Counsel
Greg West	Company Secretary & Chief Financial Officer

There have been no changes to executive or director compensation arrangements after reporting date and the date the financial report was authorised for issue.

The names and positions of each person who held the position of director at any time during the financial year is provided above. The five named executives in the consolidated group who received the highest remuneration for the financial year are named above.

(ii) Directors' Compensation

	Short-Term				Post employment			Share-based payments	Total	Total Performance Related
	Salary fees	Cash Bonus	Non-monetary	Other	Super	Retirement benefits	Long-term Incentive plans	Number of Options granted		
2008	\$	\$	\$	\$	\$	\$			\$	%
Gary Garton	75,000	nil	nil	nil	nil	nil	–	–	75,000	N/A
David Young	350,000	nil	nil	41,945	13,385	nil	–	–	405,330	N/A
Ian Holman ⁽¹⁾	23,333	nil	nil	nil	2,100	nil	–	–	25,433	N/A
Dr Ronald Shnier ⁽²⁾	112,750	nil	nil	nil	nil	nil	–	5,000,000 ⁽⁴⁾	112,750	N/A
	561,083	nil	nil	41,945	15,485	nil	–	5,000,000	618,513	
2007										
Gary Garton	75,000	nil	nil	nil	nil	nil	–	–	75,000	N/A
David Young	350,000	nil	nil	32,454	12,908	nil	–	–	395,362	N/A
Ian Holman ⁽¹⁾	35,000	nil	nil	nil	3,150	nil	–	–	38,150	N/A
Dr Ronald Shnier	70,000	nil	nil	nil	nil	nil	–	–	70,000	N/A
Dr Michael Carr ⁽³⁾	59,597	nil	nil	nil	nil	nil	–	–	59,597	N/A
	589,597	nil	nil	32,454	16,058	nil	–	–	638,109	

(1) Resigned 5 September 2008

(2) Appointed as Chief Medical Officer on 17 October 2008

(3) Resigned 12 September 2007

(4) Options were granted to Dr Ron Shnier at a shareholders General Meeting on 10 December 2008. The share based expense relating to these options over the five year period of the options is \$272,177 with \$18,029 being the expense in the period to 31 December 2008.

(iii) Executives' Remuneration

	Short-Term				Post employment			Share-based payments	Total	Total Performance Related
	Salary fees \$	Cash Bonus \$	Non-monetary \$	Other \$	Super \$	Retirement benefits \$	Long-term Incentive plans	Number of Options granted		
2008										
Leon P Carr ⁽¹⁾	200,000	nil	nil	nil	13,385	nil	–	–	213,385	N/A
Gary Corino ⁽¹⁾	203,544	nil	nil	nil	13,385	nil	–	–	216,929	N/A
Dr Peter French ⁽¹⁾	152,264	nil	nil	35,050	13,385	nil	–	–	200,699	N/A
Richard M Toltz ⁽¹⁾	484,851	nil	nil	15,149	13,385	nil	–	–	513,385	N/A
Greg West ⁽²⁾	180,000	nil	nil	nil	13,385	nil	–	–	193,385	N/A
	1,220,659	nil	nil	50,199	66,925	nil	–	–	1,337,783	
2007										
Leon P Carr ⁽¹⁾	200,000	nil	nil	nil	12,908	nil	–	–	212,908	N/A
Gary Corino ⁽¹⁾	168,544	nil	nil	35,000	12,908	nil	–	–	216,452	N/A
Dr Peter French ⁽¹⁾	187,314	nil	nil	nil	12,908	nil	–	–	200,222	N/A
Richard M Toltz ⁽¹⁾	448,232	nil	nil	51,768	12,908	nil	–	–	512,908	N/A
Greg West ⁽²⁾	180,000	nil	nil	nil	12,908	nil	–	–	192,908	N/A
	1,184,090	nil	nil	86,768	64,540	nil	–	–	1,335,398	

(1) Executive service agreement commenced in April 2006

(2) Executive service agreement commenced in May 2006

(iv) Compensation by category for Directors and nominated executives

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employment benefits	1,873,886	1,892,909	136,833	192,282
Post employment benefits	82,410	80,598	nil	nil
Other long-term benefits	nil	nil	nil	nil
Termination benefits	nil	nil	nil	nil
	1,956,296	1,973,507	136,833	192,282
Share-based payments	Performance incentives were provided by the granting of options by the parent company		Performance incentives were provided by the granting of options by the parent company	



Directors' and Executives' equity holdings

(a) Compensation Options: Granted and vested during the year to 31 December 2008 (consolidated)

Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each grant			
				Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
Nil	300,000 ⁽¹⁾	21-Aug-2008	35 cents	35 cents	21-Aug-2012	21-Aug-2009	21-Aug-2012
Nil	2,000,000 ⁽²⁾	13-Jun-2008	69 cents	69 cents	13-Jun-2011	13-Jun-2009	13-Jun-2011
2,000,000	5,000,000 ⁽³⁾	10-Dec-2008	32 cents	32 cents	10-Dec-2013	10-Dec-2008	10-Dec-2013

- (1) Compensation options from the Employee Share Option Scheme were granted to an employee during the year. The Employee Share Option Scheme grant of options vest as shown in the table (to the extent that vesting criteria are met) or are forfeited. The options expire within four years from granting. The exercise price for options is 35 cents. The service and performance criteria, together with other details are described in (b) below.
- (2) Options were issued to the vendors of Sydney Breast Clinic Pty Limited, at market price to acquire ordinary shares and were granted on 13 June 2008 with an exercise price of 69 cents. The options expire within three years from granting. The exercise price for options is 69 cents. The service and performance criteria, together with other details are described in (b) below.
- (3) Dr Ronald Shnier was granted options to acquire 5,000,000 ordinary shares at a shareholders general meeting on 10 December 2008. The options have an exercise price of 32 cents and vest over two years and expire in five years from the grant date.

Directors' and Executives' equity holdings

(b) Compensation Options: Granted, vested and exercised (consolidated)

	Number of Options Granted			Number of Options Exercised since granted	Number of Options held at 31 Dec 2008	Grant Date	Terms and conditions for each grant					Vested Number as at 31 Dec 2008
	Year to 31 Dec 2006	Year to 31 Dec 2007	Year to 31 Dec 2008				Value per option at grant date	Exercise Price \$	Expiry Date	First Exercise Date	Last Exercise Date	
Directors												
Gary Garton	3,300,000				3,300,000	9-Oct-06	6.8 cents	30 cents	9-Oct-11	25-Oct-08	9-Oct-11	3,300,000
David Young	10,000,000				10,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09	10,000,000
Ian Holman ⁽¹⁾	3,300,000				3,300,000	9-Oct-06	6.8 cents	30 cents	9-Oct-11	25-Oct-08	9-Oct-11	3,300,000
Dr Ronald Shnier	3,300,000				3,300,000	9-Nov-06	6.8 cents	30 cents	9-Nov-11	12-Jan-07	9-Nov-11	3,300,000
Dr Ronald Shnier		5,000,000			5,000,000	10-Dec-08	30 cents	32 cents	10-Dec-13	10-Dec-08	10-Dec-13	2,000,000
Dr Michael Carr ⁽²⁾	3,300,000			(150,000)	3,150,000	9-Nov-06	6.8 cents	30 cents	9-Nov-11	12-Jan-07	9-Nov-11	3,150,000
Executives												
Leon P Carr	10,000,000				10,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09	10,000,000
Gary Corino	3,000,000				3,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	9-Oct-06	9-Oct-09	2,000,000
Gary Corino	2,000,000				2,000,000	17-Nov-06	5.2 cents	30 cents	17-Nov-09	17-Nov-06	17-Nov-09	nil
Dr Peter French	5,000,000			(608,000)	4,392,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	9-Oct-06	9-Oct-09	1,392,000
Richard M Toltz	7,500,000				7,500,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09	7,500,000
Greg West	3,000,000			(1,000,000)	2,000,000	19-Oct-06	5.2 cents	30 cents	19-Oct-09	19-Oct-06	19-Oct-09	1,000,000
Other executives	3,000,000				3,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	9-Oct-06	9-Oct-09	2,000,000
Other executives		450,000			450,000	1-Feb-07	\$1.50	\$1.50	1-Feb-10	1-Feb-07	1-Feb-10	300,000
Other executives			300,000		300,000	21-Aug-08	35 cents	35 cents	21-Aug-12	21-Aug-09	21-Aug-12	nil
Other executives			2,000,000		2,000,000	13-Jun-08	69 cents	69 cents	13-Jun-11	13-Jun-09	13-Jun-11	nil
Total	56,700,000	450,000	7,300,000	(1,758,000)	62,692,000							49,242,000

(1) resigned 5 Sept 2008

(2) resigned 12 Sept 2007

(c) Details concerning share-based compensation of directors and executives

The value of each person's remuneration that consists of options is shown in the preceding tables. Options granted as remuneration are valued at grant date in accordance with AASB 2 Share-based Payments. No options previously granted as remuneration have lapsed during the year.

The basis for share-based compensation of directors and executives is disclosed in the remuneration policy described above.

Following the approval at the shareholders meeting on 8 May 2007, options were issued to the Trustees of the Fermiscan USA Option Plan to acquire up to 5 million ordinary shares at \$1.50 per share to be vested in senior executives of the Fermiscan Group who are resident in the USA to assist in the attraction, retention and motivation of such senior executives. The executives to be granted tranches of those options to expire no later than 7 May 2012 are to be selected by a committee of the Board of Directors of the Company. At the date of this Report no such options have been vested.

(d) Shares issued on exercise of compensation options (consolidated)

There were no shares issued on exercise of compensation options during the year.

(e) The number of options held by directors and key management personnel (consolidated)

are as described in the preceding table.

(f) Number of shares held by directors and key management personnel

Relevant interest in ordinary shares held in Fermiscan Holdings Limited at 31 December 2008. The shareholdings shown in the following table are relevant interests in shares by the director or the executive or their associates.

	Opening balance	Acquired	Disposed	Closing Balance
Directors				
Gary Garton	41,140	—	—	41,140
David Young	1,037,430	—	—	1,037,430
Dr Ronald Shnier	—	—	—	—
Executives				
Leon P Carr	45,575,522	—	756,220	44,819,302
Gary Corino	—	—	—	—
Dr Peter French	—	—	—	—
Richard M Toltz	25,773,200	—	—	25,773,200
Greg West	—	—	—	—
	72,427,292	—	756,220	71,671,072



Service agreements

The non-executive directors' being Gary Garton and Dr Ronald Shnier have agreements detailing the formal terms and conditions of the appointment, expected time commitment, procedure regarding conflicts of interest, performance appraisal, remuneration, superannuation and insurance arrangements. The Fermiscan Constitution governs the election and appointment of directors, rotation of elected directors, casual vacancies and eligibility for election. The terms and entitlements of non-executive directors are governed by normal employment law.

The following summarises the key provisions of service agreements with executives:

- Mr David Young has a three year service agreement as Managing Director from April 2006 which can be terminated by Mr Young on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment
- Mr Leon Carr has a three year service agreement as Corporate Strategist from April 2006 which can be terminated by Mr Carr on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment
- Mr Richard Toltz has a three year service agreement as General Counsel from April 2006 which can be terminated by Mr Toltz on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment
- Dr Peter French has an ongoing service agreement as Chief Scientific Officer from April 2006 which can be terminated by Dr French on three months notice or is terminable by the company on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment
- Mr Gary Corino has a three year service agreement as Chief Operations Officer USA from April 2006 which can be terminated by Mr Corino on six months notice or is terminable by the company after three years on six months notice. In some circumstances if the Company terminates Mr Corino's employment within three years from commencement he is entitled to a termination payment equivalent to his annual salary for the period from termination to the end of the three years
- Mr Greg West has a three year service agreement as Chief Financial Officer from May 2006 which can be terminated by Mr West on six months notice or is terminable by the company after three years on six months notice. In some circumstances if the Company terminates Mr West's employment within three years from commencement he is entitled to a termination payment equivalent to his annual salary for the period from termination to the end of the three years

Signed in accordance with a resolution of the directors.

David Young

Director

Sydney, 25 March 2009

Auditor's independence declaration



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K J CRANFIELD
A W ELKERTON
M A GODLEWSKI
C W HOPE
B W JONES
D S MCGILL
C R MILLINGTON
Y E PIETSCH
R M SHANLEY
D W STAPLES
D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Fermiscan Holdings Limited

In relation to the independent audit for the year ended 31 December 2008, as lead audit partner, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

PITCHER PARTNERS

MARK GODLEWSKI
Partner

Sydney, 25 March 2009



Corporate Governance statement

Approach to Governance

Fermiscan Holdings Limited is committed to high standards of corporate governance and this is reflected in its culture, policies and business practices. The Fermiscan board has in place governance structures for the formation of strategic direction and policy including an overall framework of internal control, risk management and ethical standards.

This document outlines Fermiscan's corporate governance policies which were in place as at March 2008 and Fermiscan compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles) released in March 2003 as described in this corporate governance statement.

ASX corporate governance principles and recommendations

PRINCIPLE 1 – Lay solid foundations for management and oversight

The role of the board is to provide strategic guidance and effective oversight of management. The directors represent the interests of shareholders and are responsible for the overall direction, long term objectives and strategy, performance, compliance and policies.

The board has adopted a formal board charter, which is available on the Fermiscan website, and details the board's role and responsibilities, membership, delegation of authority, committee composition and board performance review. The board is also governed by general law, the Corporations Act and Fermiscan's Constitution.

Board responsibilities

The main board responsibilities, summarised from the board charter are:

- **Shareholder interests:** to serve the interests of shareholders and recognise the interests of other stakeholders such as employees, potential customers, regulators, and broader Fermiscan related communities;
- **Strategy:** to drive the strategic direction, set goals, performance measures and policies
- **Leadership:** to determine the managing director's terms of appointment, performance evaluation and replacement; provide specific delegated authority to the managing director to oversee the day to day operations of Fermiscan;
- **Performance:** to review business results and monitor performance against key performance measures, corporate strategy plans and budgets; review reporting to shareholders and regulators; approve and monitor any required actions
- **Risk management:** to consider and approve key risk management strategies; review and monitor processes for regulatory compliance
- **Board performance:** to regularly review the performance of the board, its committees, and individual directors, with external assistance as required; and
- **Audit:** to select external auditors and to evaluate their performance and independence

The full board meets for at least ten regular meetings each year and other meetings are called as deemed necessary. The board agendas are established by the chairman and managing director and are structured to meet board responsibilities. At each of the meetings directors' receive reports provided by executive management. The board meets throughout the year for regular scheduled discussions on the Company strategy to consider longer term issues and strategic initiatives.

Each director has the right to seek independent professional advice at Fermiscan's expense on a matter relevant to the director's role at Fermiscan and affecting the director's own position, subject to prior approval from the chairman.

Delegations of Board authority

The board has delegated the authority of the day to day management of Fermiscan to the managing director subject to specific delegations and limits. Regular consultation between the managing director and the chairman occurs on matters generally as they arise.

The managing director is responsible for:

- the development of long-term objectives, strategic plans, initiatives, performance measures and policies in consultation with the board;
- ensuring day to day operations are carried out effectively and efficiently;
- monitoring business performance against key performance measures, corporate strategy plans and the budget;
- determining the terms of appointment, performance evaluation, succession plans and replacement of his direct reports, in consultation with the Remuneration & Nomination Committee;
- development and monitoring of the risk management framework and building an appropriate internal control environment, in consultation with the Audit & Risk Committee; and
- bringing material and relevant matters to the board in a timely and factual manner.

PRINCIPLE 2 – Structure the board to add value

The board considers that its directors' possess a broad range of relevant skills and experience necessary to meet its objectives, whilst encouraging engaged debate. The current board composition, with details of individual members including skills experience and expertise, is set out in the Annual Report and the Directors Report.

A review of the board's composition takes place annually and matters such as the complexity of the business, the effectiveness and efficiency of the board, appropriate capabilities and expertise of the collective board and individual directors are taken into consideration.

The composition of the board and the election and appointment of directors are determined in accordance with Fermiscan's Constitution which is available on the Fermiscan website, and are also subject to relevant regulatory requirements. Fermiscan's board presently comprises three directors, including the managing director. With the exception of the managing director, directors retire by rotation and serve a maximum three year term, although each may stand for re-election.

The board periodically reviews the framework for director nomination, with guidance from the Remuneration & Nomination Committee, to ensure the skills sets and experience of selected candidates are complementary to those currently available on the board and consistent with the commercial and other circumstances of Fermiscan, both currently and into the foreseeable future. The Remuneration & Nomination Committee will evaluate potential candidates taking into consideration factors such as professional skills, background, personal qualities, experience and whether the candidate's skills will augment the existing board.

Board committees

The board has established three standing committees to assist in the execution of its responsibilities. Each committee has terms of reference with authority delegated from the board and an independent chairman. The terms of reference for each committee may be viewed on the Fermiscan website. The board determines committee composition, membership and charters. Committee memberships are reviewed annually and are based on the capabilities and experience of individual directors. Minutes of subsidiary boards and board committee meetings are included in the board papers for the information of all directors.

The standing committees' are

- Audit & Risk Committee
- Remuneration & Nomination Committee
- Governance Committee

The Composition of Standing committees is

Audit & Risk	Remuneration and Nomination	Governance
Dr Ronald Shnier (Chairman)	Gary Garton (Chairman)	Gary Garton (Chairman)
David Young	David Young	David Young
Gary Garton	Dr Ronald Shnier	

The role of each of these committees is considered in the appropriate section of this corporate governance statement.



Corporate Governance statement

In addition to the standing committees, Fermiscan has:

- a **Scientific and Medical Advisory Board** which usually meets bimonthly. Its purpose is to help direct product development and clinical testing programmes and to provide independent advice to the board of Fermiscan. The advisory board provides professional oversight and advice on the commercialisation of the company's services to ensure they meet the expectations of the medical and patient communities. The composition of the advisory board represents key perspectives and inputs needed in our development programmes from both scientists and physicians specialising in various areas of medicine, including radiology.
- a **Fermiscan Human Research and Ethics Committee** which was established to provide governance to planned trials for the company. This committee is registered with the National Health and Medical Research Council (NHMRC). The purpose of the Ethics Committee is to protect the welfare and the rights of participants in research while following the guidelines and principles encapsulated in the "National Statement in Ethical Conduct in Research Involving Humans".

Governance Committee

The Governance Committee assists the board to discharge its responsibilities relating to corporate governance practices. The committee currently comprises the chairman, Mr Gary Garton, and Mr David Young, the managing director. The roles and responsibilities of the committee are reviewed regularly by the board.

The Chairman

The chairman is responsible for:

- leading the board;
- chairing meetings of the board and shareholders;
- being the primary point of contact between the board and the managing director;
- representing the views of the board to the public;
- instituting the process for appraising board members and the board as a whole;
- communicating with shareholders on matters of corporate governance; and
- ongoing counselling of individual directors.

The roles of the chairman and the managing director are entirely separate.

Independence

To qualify as an independent director, a director must be independent of management and free of any business or other relationship that could materially interfere with – or could be reasonably perceived to materially interfere with – the exercise of their unfettered and independent judgement

The board makes regular determinations on the independence of individual directors based on an independence policy and a review process undertaken by the board. Independence will be taken to be met when a non-executive director:

- is not an officer of a substantial shareholder, or otherwise associated directly or indirectly with, a substantial shareholder of the company;
- has not, within the last three years been employed in an executive capacity by the company;
- has not, within the last three years been a principal or employee of the external auditor, material professional adviser or a material consultant to the company
- is not a material supplier or customer of the company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company, other than as a director of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

In determining whether a director's interest or relationship interferes with their independence, the board has regard to the materiality of the interest or relationship. If directors' circumstances change, they are expected to volunteer information relevant to a continuing independence assessment.

Avoidance of conflict of interest

In addition to the issue of independence, directors have a continuing responsibility to avoid conflicts of interest (both real and apparent) between their duty to Fermiscan and their own interests. Directors are required to disclose any actual or potential conflict of interest on appointment and are required to keep this disclosure up to date.

A director who has an actual or potential conflict must immediately inform the board and remove themselves from any discussions or decision making in relation to the actual or potential conflict.

Appointment of Directors

The Fermiscan Constitution governs the election and appointment of directors, rotation of elected directors, casual vacancies and eligibility for election. There are a number of elements relating to formalising the appointment for either elected or appointed independent directors, including:

- a letter detailing the formal terms and conditions of the appointment, expected time commitment, procedure regarding conflicts of interest, performance appraisal, remuneration, superannuation and insurance arrangements;
- written consent to act as a director;
- agreement to the directors Code of Conduct; and
- Deed of Access to Documents and provision of Indemnity Insurance.

Board renewal

The board has a policy on renewal to ensure the board remains open to new ideas and independent thinking. As part of the policy, the board has set, as a general rule, that director's tenure will be reviewed if the director is approaching a service period of three concurrent terms of office. Matters to be considered by the board when a director is approaching a service period of three concurrent terms of office will include board competencies, board committee membership, and the average tenure and experience of the board overall.

PRINCIPLE 3 – Promote ethical and responsible decision making

Fermiscan is committed to establishing and maintaining high ethical standards within the company, in its dealings with shareholders, stakeholders and regulatory bodies. Fermiscan's has established committees in addition to those required under ASX Corporate Governance requirements to better address the ethical issues surrounding the company's medical diagnostic activities – the Fermiscan Scientific and Medical Advisory Board and the Fermiscan Human Research and Ethics Committee

The company has codes of conduct which govern ethical business behaviour in addition to policies covering whistleblower protection, shareholder communications policy, continuous disclosure and dealing in securities. The policies, or policy summaries, are available on the company website.

Directors and staff are encouraged to own shares in Fermiscan in accordance with policy. The policy prohibits dealing in securities outside certain designated periods and at any time which the individual is in possession of inside information. Directors and executives were granted share options over the last three years and this is disclosed in the Remuneration Report.

The Fermiscan board takes ethical and responsible decision-making seriously and it expects employees to have the same approach. All directors, managers and staff are expected to act with the utmost integrity in the best interest of the organisation, while striving at all times to enhance the reputation and performance of Fermiscan.

The board and the staff acknowledge that they are responsible for promoting high ethical and integrity standards and that the language, attitudes and actions of directors and the staff affect the integrity, ethics, values and other aspects of Fermiscan's culture.



Corporate Governance statement

PRINCIPLE 4 – Safeguard integrity in financial reporting

The board are committed to integrity in financial reporting particularly as it applies to the company's financial position and prospects. The board has a structured process, through the Audit & Risk Committee, for the quarterly, six monthly and annual financial reports including the sign off and release of information to the market.

The Audit & Risk Committee assists the board to discharge its responsibilities relating to the integrity of the financial reporting, the effectiveness and independence of the audit, evaluation of the management processes relating to compliance, internal control systems, and the risk management framework.

The committee currently comprises an independent chairman, an independent non-executive director and the managing director. All members have a sound understanding of the industry within which Fermiscan operates and are financially literate. The roles and responsibilities of the committee are reviewed annually.

The Audit & Risk Committee meets with the external auditor throughout the year and the auditor has a standing invitation to all Audit & Risk Committee meetings. The auditor reports directly to the Audit & Risk Committee and has unrestricted access to the board. The auditor's main role is to provide independent assurance to shareholders that the financial statements are free from any material misstatement.

PRINCIPLE 5 – Make timely and balanced disclosure

Fermiscan recognises the importance of timely and accurate disclosure to its shareholders and the broader investment market and to meet its continuous disclosure obligations. The company is committed to ensuring that all investors have equal and timely access to material information regarding the company's financial position, performance, ownership and governance.

The board has developed a continuous disclosure policy designed to facilitate compliance with its obligations under the ASX Listing Rules.

PRINCIPLE 6 – Respect the rights of shareholders

Fermiscan is aware of the importance of effective communication with its shareholders and has in place a shareholder communications policy which encourages and promotes effective communication with shareholders and participation at general meetings.

The Fermiscan website provides general information and reports on Fermiscan – ASX announcements, investor presentations, scientific information and a link to the stock market which displays the share price and Fermiscan market information. A corporate directory including contact details is also made available for shareholders to make enquiries of the company.

The external auditor is present at all General Meetings and is available to answer shareholder queries about how the audit is conducted and the preparation and content of the auditor's report.

PRINCIPLE 7 – Recognise and manage risk

The board oversees the management of the group's risks through board and management committees. Fermiscan executives are responsible for risk and internal control and the risk management systems.

The Fermiscan board review and approve the risk management framework and sets key risk parameters for the major risk areas. The board evaluates the effectiveness of risk management strategies and internal control processes with guidance from the Audit & Risk Committee.

Risks are managed through an oversight structure and an internal control framework that includes:

- continual risk identification, assessment and control processes;
- policies and procedures on risk and compliance;
- appropriate risk and compliance committee structures at board and management levels;
- assigning appropriate delegations of authority;
- recruiting skilled, professional staff;
- maintaining information systems which provide relevant, timely and accurate information on risks and controls; and
- independent assurance on risk framework and internal controls through audit

The Fermiscan Audit & Risk Committee reviews reports and agreed action and ensures that planned audit activities are aligned to business risks.

The board receive assurance from the managing director and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8 – Remunerate fairly and responsibly

The company has a Remuneration & Nomination Committee which supports and advises the board in discharging its responsibilities to shareholders in the area of fair and responsible remuneration. The committee charter is available from the company website. In summary, the committee monitors and reviews the company's remuneration policies and practices, ensuring they are fair, formalised and transparent. The Committee acts for the board in the processes relating to director nomination.

The committee currently comprises an independent non-executive chairman, an independent director and the managing director. The roles and responsibilities of the committee are reviewed annually.

Executive performance criteria are clearly defined; time constrained and based on the achievement of a balance of short and long-term corporate goals. The executive remuneration approach is to reward performance and provide an appropriately competitive salary to attract and retain quality executives.

The board reviews the performance and sets the remuneration for the managing director after receiving recommendations from the Remuneration & Nomination Committee. The managing director's review involves assessing performance against established criteria.

Employment arrangements for the direct reports to the managing director (including appointment, termination, performance reviews, and incentive arrangements) are subject to consultation with the Remuneration & Nomination Committee as required.

Board remuneration is set by the board after taking independent, external advice from an organisation specialising in remuneration matters. Directors fees are disclosed in the Remuneration Report included in the Annual Report.



Corporate Governance statement

ASX Corporate Governance Principles and Recommendations	Compliant
PRINCIPLE 1 – Lay solid foundations for management and oversight	
Recommendation 1.1 Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓
Recommendation 1.2 Disclose the process for evaluating the performance of senior executives.	✓
Recommendation 1.3 Provide the information indicated in the Guide to reporting on Principle 1.	✓
PRINCIPLE 2 – Structure the board to add value	
Recommendation 2.1 A majority of the board should be independent directors.	✓
Recommendation 2.2 The chairman should be an independent director.	✓
Recommendation 2.3 The roles of chairman and chief executive officer should not be exercised by the same individual.	✓
Recommendation 2.4 The board should establish a nomination committee.	✓
Recommendation 2.5 Disclose the process for evaluating the performance of the board, its committees and individual directors.	✓
Recommendation 2.6 Provide the information indicated in the Guide to reporting on Principle 2.	✓
PRINCIPLE 3 – Promote ethical and responsible decision making	
Recommendation 3.1 Establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take account of their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	✓
Recommendation 3.2 Establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	✓
Recommendation 3.3 Provide the information indicated in the Guide to reporting on Principle 3.	✓
PRINCIPLE 4 – Safeguard integrity in financial reporting	
Recommendation 4.1 The Board should establish an Audit Committee	✓
Recommendation 4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board; and • has at least three members. 	The managing director is a member of the audit committee
Recommendation 4.3 The audit committee should have a formal charter.	✓
Recommendation 4.4 Provide the information indicated in Guide to reporting on Principle 4.	✓

PRINCIPLE 5 – Make timely and balanced disclosure

Recommendation 5.1 Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclosure those policies or a summary of those policies. ✓

Recommendation 5.2 Provide the information indicated in the Guide to reporting on Principle 5. ✓

PRINCIPLE 6 – Respect the rights of shareholders

Recommendation 6.1 Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. ✓

Recommendation 6.2 Provide the information indicated in the Guide to reporting on principle 6. ✓

PRINCIPLE 7 – Recognise and manage risk

Recommendation 7.1 Establish policies for the oversight and management of material business risks and disclose a summary of those policies. ✓

Recommendation 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. ✓

Recommendation 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. ✓

Recommendation 7.4 Provide the information indicated in the Guide to reporting on Principle 7. ✓

PRINCIPLE 8 – Remunerate fairly and responsibly

Recommendation 8.1 The Board should establish a remuneration committee. ✓

Recommendation 8.2. Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. ✓

Recommendation 8.3 Provide the information indicated in the Guide to reporting on Principle 8. ✓



Income Statement

For the year ended 31 December 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Receipts from customers		2,720	–	–	–
Interest income		1,027	1,362	984	1,246
Revenue	3	3,747	1,362	984	1,246
Employee benefits expense	4	5,743	3,164	163	208
Formation costs		–	1	–	–
Administration costs		797	168	–	–
Scientific & synchrotron operations		4,094	3,368	–	–
Patent and trademark expenses		2	26	–	–
Legal fees		396	267	267	89
Branding and marketing		376	435	–	–
Occupancy costs		484	177	–	–
Depreciation and amortisation	4	440	109	–	–
Finance costs		–	12	–	–
Currency translation		(529)	–	(644)	–
Other expenses		1,101	787	183	133
Total expenses		12,904	8,514	(31)	430
Profit (loss) before share based expense transactions		(9,157)	(7,152)	1,015	816
Share based expense transactions		87	232	87	232
Profit (loss) before income tax expense (income tax benefit)		(9,244)	(7,384)	928	584
Income tax expense (income tax benefit)	5	–	–	–	–
Profit (loss) attributable to the members of the parent		(9,244)	(7,384)	928	584
Earnings per share					
Basic earnings (loss) – cents per share		(6.4)	(5.3)		
Diluted earnings (loss) – cents per share		(6.4)	(3.7)		

Balance Sheet

As at 31 December 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
CURRENT ASSETS					
Cash and cash equivalents		7,515	20,972	6,821	19,503
Receivables	6	277	1,301	13	1,059
Amount owing by controlled entities	18	–	–	21,824	6,498
Other	7	219	115	–	–
TOTAL CURRENT ASSETS		8,011	22,388	28,658	27,060
NON CURRENT ASSETS					
Investment in subsidiaries	8	–	–	32,017	32,017
Property, plant and equipment	9	2,540	655	–	–
Intangibles	10	5,365	583	–	–
TOTAL NON CURRENT ASSETS		7,905	1,238	32,017	32,017
TOTAL ASSETS		15,916	23,626	60,675	59,077
CURRENT LIABILITIES					
Payables	11	1,010	366	50	47
Provisions	12	486	173	–	–
TOTAL CURRENT LIABILITIES		1,496	539	50	47
NON CURRENT LIABILITIES					
Payables	11	76	166	–	–
TOTAL NON CURRENT LIABILITIES		76	166	–	–
TOTAL LIABILITIES		1,572	705	50	47
NET ASSETS		14,344	22,921	60,625	59,030
EQUITY					
Contributed equity	13	34,959	34,928	57,608	57,577
Reserves		4,205	3,569	4,205	3,569
Retained earnings (accumulated losses)		(24,820)	(15,576)	(1,188)	(2,116)
TOTAL EQUITY		14,344	22,921	60,625	59,030



Statement of Changes in Equity

For the year ended 31 December 2008

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Retained earnings (losses) at the beginning of the year	(15,576)	(8,192)	(2,116)	(2,700)
Profit (loss) for the year	(9,244)	(7,384)	928	584
Retained earnings (losses) at the end of the year	(24,820)	(15,576)	(1,188)	(2,116)
Transactions with equity holders in their capacity as equity holders:				
Contributed equity at the beginning of the year	34,928	12,780	57,577	35,429
Contributions received by Fermiscan Holdings Limited	45	23,066	45	23,066
Reversal of share based expense reserve on the exercise of options by employees	10	–	10	–
Fund raising costs	(24)	(918)	(24)	(918)
Contributed equity at the end of the year	34,959	34,928	57,608	57,577
Share based payments reserve opening balance	3,569	3,420	3,569	3,420
Granted during the year	636	232	636	232
Exercised during the year	–	(83)	–	(83)
Share based payments reserve at the end of the year	4,205	3,569	4,205	3,569
Total equity at the end of the year attributable to members of the parent	14,344	22,921	60,625	59,030

Statement of Cash Flows

For the year ended 31 December 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')
CASH FLOW FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(12,098)	(8,141)	(564)	(511)
Receipts from customers		2,720	–	–	–
Interest received		1,027	1,362	984	1,246
Net cash provided by (used in) operating activities	14	(8,351)	(6,779)	420	735
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property plant and equipment		(207)	(544)	–	–
Payments for intangible assets		(113)	(279)	–	–
Payment for acquisition of business		(3,521)	–	–	–
Loans to other entities		(100)	–	–	–
Loans to controlled entities		–	–	(14,145)	(3,801)
Loans repaid by other entities		1,000	500	1,000	500
Net cash provided by (used in) investing activities		(2,941)	(323)	(13,145)	(3,301)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issues after costs of issue		45	22,065	45	22,065
Loan repayments to other entities		(2,210)	–	–	–
Net cash provided by (used in) financing activities		(2,165)	22,065	45	22,065
Net increase in cash and cash equivalents		(13,457)	14,963	(12,680)	19,499
Cash and cash equivalents at beginning of year		20,972	6,009	19,501	2
Cash and cash equivalents at end of the year		7,515	20,972	6,821	19,501

Notes to the Financial Statements

31 December 2008



Note 1: Basis of preparation

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

Fermiscan Holdings Limited, the legal parent, is a company limited by shares, incorporated and domiciled in Australia.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

The financial report of Fermiscan Holdings Limited and controlled entities, and Fermiscan Holdings Limited as an individual parent entity comply with Australian Accounting Standards. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Summary of the significant accounting policies:

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Fermiscan Holdings Limited controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 18.

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% in the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25th October 2006) and therefore control of the combined entity. Accordingly the transaction is accounted for as a reverse acquisition. This financial report discloses the consolidated financial statements with the Fermiscan Holdings Limited acquisition of Fermiscan Limited accounted for as a reverse acquisition.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(c) Revenue recognition

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Balance Sheet.

(e) Property, plant and equipment

Cost and valuation

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to its acquisition.

The carrying amount of plant and equipment is reviewed for impairment annually by directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement.

Depreciation

The depreciable amounts of fixed assets are depreciated on a straight-line basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2008	2007
Plant and equipment:	2.5 to 5 years	2.5 to 5 years
Motor vehicles:	5 years	5 years

(f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Operating leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

(g) Intangibles

Trademark and patents

Trademark and patents are recognised at cost and are amortised over their estimated useful lives, which range from 5 to 20 years, once commercial production is commenced. Trademarks and patents are carried at cost less accumulated amortisation and any impairment losses.

Research and development

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced. Other development expenditure is recognised as an expense when incurred.



Notes to the Financial Statements

31 December 2008

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

(h) Impairment of assets

Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(i) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The parent entity and its controlled entities intend to form an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group also intends to enter into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(j) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Share based expense transactions

The company operates an employee share option plan. In addition Directors and employees were granted options over the last two years. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

Superannuation

Contributions are made by the Group to employee superannuation funds which provide accumulated benefits to employees.

(k) Financial instruments

Classification

The group classifies its financial instruments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Held-to-maturity investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

Loans and receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Investments in subsidiaries not included in the above categories are reflected at cost less impairment of value.

(l) Foreign currencies

Functional and presentation currency

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and balances

Fermiscan Holdings Limited and its subsidiaries presently transact in foreign currencies. Transactions in foreign currencies of entities within the consolidated entity are translated into the functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) would be translated using the spot rate at the end of the financial year. Resulting exchange differences arising on settlement or re statement would be recognised as revenues and expenses for the financial year.

Group Companies

The financial statements of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity in the balance sheet.

(m) Investments

Investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as available for sale, are measured at fair value. Investments in subsidiaries are reflected at cost less impairment of value.

(n) Rounding of amounts

The company has applied the relief available under ASIC Class order 98/100, accordingly amounts in financial statements have been rounded off to the nearest \$1,000.

(o) New Accounting Standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 December 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is that there is not expected to be any material effect on the Group in future reporting periods.



Notes to the Financial Statements

31 December 2008

Note 2: Critical accounting estimates and judgements

Estimates and judgements are based on past performance and management's expectation for the future.

Critical accounting estimates and assumptions

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are:

Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Valuation of expense based payments

Equity settled share based payments are adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

Estimated impairment of goodwill

Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

Note 3: Revenue

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Revenues from operations	2,720	–	–	–
Interest Income	1,027	1,362	984	1,246
	3,747	1,362	984	1,246

Note 4: Profit (loss) from operations

Loss from operations before income tax has been determined after the following specific expenses

Employee benefits expense	5,530	2,835	163	208
Superannuation	213	329	–	–
Research & development	844	951	–	–
Depreciation of non current assets				
Plant and equipment	408	76	–	–
Motor vehicles	32	33	–	–

Note 5: Income tax

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Profit (loss) before income tax	(9,244)	(7,384)	928	584
At the statutory income tax rate of 30% (2007: 30%)	(2,773)	(2,215)	278	175
Tax effect of amounts which are not deductible in calculating taxable income				
Share based payments	87	70	87	70
Tax losses and timing differences not recognised as future tax benefits	2,686	2,145	(365)	(245)
Income tax expense	–	–	–	–
Tax losses and timing differences are not recognised as future tax benefits				
Deferred tax assets not recognised in the balance sheet	4,191	2,238	4,191	2,238
Estimated and unconfirmed unused tax losses and temporary differences	13,970	7,463	13,970	7,463

The potential future income tax benefits arising from tax losses and timing differences has not been recognised as an asset and will only be obtained if:

- Assessable income is derived of a nature and of an amount sufficient to enable such benefits to be realised;
- Conditions for deductibility imposed by the relevant law are complied with; and,
- No changes in the tax legislation adversely affect the realisation of the benefit from the deduction.

Note 6: Receivables

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
CURRENT				
Trade and other receivables	177	301	13	59
Unsecured directors loan	100	–	–	–
Secured loan to unrelated entity	–	1,000	–	1,000
	277	1,301	13	1,059

Note 7: Other current assets

Prepayments	121	82	–	–
Unexpired interest charges	15	33	–	–
Other assets	83	–	–	–
	219	115	–	–



Notes to the Financial Statements

31 December 2008

Note 8: Investment in subsidiaries

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
NON-CURRENT				
(a) Investments at cost comprise:				
Unlisted shares – investment in controlled entities	–	–	32,017	32,017

(b) Sydney Breast Clinic Pty Ltd

The company acquired 100% of the share capital of Sydney Breast Clinic Pty Ltd on 13 June 2008. The transaction was funded from existing cash resources. Details of acquisition costs and net assets acquired are:

	(\$'000)
Cash paid including stamp duty	3,521
Options issued as consideration	560
Total acquisition cost	4,081

The options cost was determined by reference to the fair value of the options at the grant date

	Carrying amount (\$'000)	Fair value (\$'000)
Net assets acquired and goodwill on acquisition		
Assets		
Cash	122	122
Trade and other receivables	95	95
Prepayments	32	32
Plant and Equipment	2,118	2,118
Total assets acquired	2,367	2,367
Liabilities		
Trade and other payables	529	529
Borrowings	2,210	2,210
Provisions	215	215
Total liabilities acquired	2,954	2,954
Net assets (deficiency) of Sydney Breast Clinic Pty Ltd acquired at 13 June 2008	(587)	(587)
Goodwill on acquisition	4,668	

The goodwill is attributable to the value of the business acquired to Fermiscan and the expected synergies to arise from the acquisition.

Profit/(loss) of Sydney Breast Clinic Pty Limited is included in consolidated profit/(loss) of the group since the acquisition date of 13 June 2008;

Loss of Sydney Breast Clinic Pty Ltd since date of acquisition	(508)
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Had this acquisition been effected on 1 January 2008 the revenue for the group would have increased by \$2,063,000 and net loss would have increased by \$369,000.

Note 9: Property, plant and equipment

Notes	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Plant & equipment				
At cost	3,152	467	–	–
Accumulated depreciation	(866)	(86)	–	–
	2,286	381	–	–
Motor vehicles				
At cost	344	320	–	–
Accumulated depreciation	(90)	(46)	–	–
	254	274	–	–
Total property, plant and equipment	2,540	655	–	–

(b) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

Plant and equipment				
Carrying amount at beginning of year	381	86	–	–
Disposals	–	–	–	–
Additions	2,313	371	–	–
Depreciation expense	(408)	(76)	–	–
Impairment	–	–	–	–
Net foreign currency movements arising from foreign operation	–	–	–	–
Carrying amount at end of year	2,286	381	–	–
Motor vehicles				
Carrying amount at beginning of year	274	134	–	–
Disposals	–	–	–	–
Additions	–	173	–	–
Depreciation expense	(32)	(33)	–	–
Impairment	–	–	–	–
Net foreign currency movements arising from foreign operation	12	–	–	–
Carrying amount at end of year	254	274	–	–

Note 10: Intangibles

Trademark and patents, at cost		697	583	–	–
Goodwill on acquisition on Sydney Breast Clinic Pty Ltd	8	4,668	–	–	–
		5,365	583	–	–
Opening net book amount		583	304	–	–
Additions		4,782	279	–	–
Closing net book amount		5,365	583	–	–



Notes to the Financial Statements

31 December 2008

Note 11: Payables

	Notes	Consolidated Entity		Parent Entity	
		2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
CURRENT					
Trade payables		139	169	–	47
Other payables		782	153	50	–
Hire purchase liabilities	20	89	44	–	–
		1,010	366	50	47
NON-CURRENT					
Hire purchase liabilities	20	76	166	–	–

The hire purchase liability is secured by the assets subject to the agreement

Note 12: Provisions

CURRENT					
Employee entitlements		486	173	–	–

Note 13: Contributed equity

(a) Issued and paid up capital

Ordinary shares fully paid		34,959	34,928	57,608	57,577
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Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Movements in shares on issue

	Legal Parent Entity		Legal Parent Entity	
	2008	2007	2008	2007
	Number of shares ('000)	(\$'000)	Number of shares ('000)	(\$'000)
Beginning of the financial year	143,507	57,577	126,899	35,429
Issued during the year	–	45	16,608	22,982
Employee share option exercised	–	10	–	84
Deduct: Share issue costs	–	(24)	–	(918)
End of the financial year	143,507	57,608	143,507	57,577

(c) Share options

Employee share option plan

The company offered employee participation in the Employee share option plan as a long term incentive and as part of the remuneration arrangements. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

During or since the end of the financial year, 7,300,000 (2007: 450,000 options) have been granted. The market value of ordinary Fermiscan Holdings Limited shares closed at \$0.20 on 31 December 2008.

(d) Share options – movements

	2008 Number	Weighted average exercise price	2007 Number	Weighted average exercise price
Outstanding at beginning of year	59,692,000		61,000,000	30 cents
Granted during the year	7,300,000	40 cents	450,000	\$1.50
Exercised during the year	–	–	(1,758,000)	30 cents
Outstanding at year end	66,992,000		59,692,000	

The share options outstanding at year end had exercise prices of 30 cents, \$1.50, 35 cents, 69 cents and 32 cents. The share options have a weighted average remaining contractual life of 583 days.

There were no share based payment arrangements modified during the year.

(e) Issuances, repurchases, and repayments of debt and equity securities

On the acquisition of Sydney Breast Clinic Pty Limited, Fermiscan Pty Limited provided a loan to Sydney Breast Clinic Pty Limited of \$2.2 million, which it used to repay external lenders. In addition, Fermiscan Holdings Limited granted 2,000,000 options to the vendors which were issued at market price. The options vest over two years and expire in three years from the grant date.

Options granted during the year were:

- 300,000 options to acquire ordinary shares granted on 28 of August 2008 with an exercise price of 35 cents. The options vest over two years and expire in four years from the grant date
- 2,000,000 options to acquire ordinary shares granted on 1 December 2008 with an exercise price of 69 cents. The options were issued to the vendors of Sydney Breast Clinic, vest over two years and expire in three years from the grant date
- 5,000,000 options to acquire ordinary shares granted on 10 December 2008 with an exercise price of 32 cents. The options vest over two years and expire in five years from the grant date

Other than the above, there were no issues, repurchases and repayments of debt securities or equity securities in the half year.

Notes to the Financial Statements

31 December 2008



Note 14: Cash flow information

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
Reconciliation of the net profit (loss) after tax to the net cash flows from operations:				
Net profit (loss)	(9,244)	(7,384)	928	584
Non cash Items				
Depreciation and amortisation	440	109	–	–
Share based expense transaction	87	232	87	232
Currency translation	–	–	(644)	–
Changes in assets and liabilities				
(Increase)/decrease in receivables	1,151	131	46	(34)
(Increase)/decrease in other assets	(104)	108	–	–
Increase/(decrease) in trade and other creditors	(995)	(48)	3	(47)
Increase/(decrease) in employee entitlements	314	73	–	–
Net cash flow from (used in) operating activities	(8,351)	(6,779)	420	735

Non cash transactions:

(a) Acquisition of property plant and equipment

During the year the consolidated entity acquired motor vehicles with a cost of \$0 (2007 \$127,777) by hire purchase agreements.

(b) Acquisition of subsidiary entities in the year ended 31 December 2008

Details of the purchase consideration for the acquisition of subsidiary entities during the year are disclosed in Notes 8 and 18. The cash in Sydney Breast Clinic Pty Limited on acquisition was \$122,000.

Note 15: Earnings per share

	2008	2007
	(\$'000)	(\$'000)
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit (loss)	(9,244)	(7,384)
Earnings used in calculating basic and diluted earnings per share	(9,244)	(7,384)
	Number of shares ('000)	Number of shares ('000)
Weighted average number of ordinary shares used in calculating basic earnings per share	143,507	139,386
Effect of dilutive securities:		
Share options	–	60,298
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	143,507	199,684

Note 16: Commitments and contingencies

	Consolidated Entity		Parent Entity	
	2008 (\$'000)	2007 (\$'000)	2008 (\$'000)	2007 (\$'000)
(a) Lease expenditure commitments				
Operating leases (non cancellable):				
(i) Operating leases related to office premises with lease terms of three years, with an option to extend for a further three years and equipment rentals for 5 years				
(ii) Minimum lease payments				
– Not later than one year	612	195	–	–
– Later than one year and not later than five years	1,296	97	–	–
– Later than five years	–	–	–	–
– Aggregate lease expenditure contracted for at reporting date	1,908	292	–	–
(b) Finance leases related to motor vehicles				
Future minimum lease payment and the present value of the net minimum lease payment				
– Not later than one year	95	50	–	–
– Later than one year and not later than five years	84	185	–	–
Total minimum lease payments	179	235	–	–
– Future finance charges	14	25	–	–
– Present value of minimum lease payment	165	210	–	–
– Current liability	89	44	–	–
– Non current liability	76	166	–	–

Note 17: Auditor's remuneration

Amounts received or due and receivable for:

An audit or review of the financial report of the entity and any other entity in the consolidated entity

Pitcher Partners	77	64	–	–
Other Services – Tax compliance, tax consulting and earlier years tax returns				
Pitcher Partners	127	115	53	–



Notes to the Financial Statements

31 December 2008

Note 18: Related party disclosures

(a) The consolidated financial statements include the financial statements of Fermiscan Holdings Limited and its controlled entities listed below:

		Country of Incorporation	Percentage Owned	
			2008	2007
Parent Entity:				
Fermiscan Holdings Limited		Australia		
Subsidiaries of Fermiscan Holdings Limited				
Fermiscan Pty Limited		Australia	100%	100%
Fermiscan Australia Pty Ltd		Australia	100%	100%
Fermiscan BCT Pty Ltd		Australia	100%	100%
Fermiscan USA Inc		USA	100%	100%
Fermiscan Italy Pty Limited	Incorporated in 2008	Australia	100%	–
Fermiscan UK Pty Limited	Incorporated in 2008	Australia	100%	–
Fermiscan Clinics Pty Limited	Incorporated in 2008	Australia	100%	–
Sydney Breast Clinic Pty Limited	Acquired in June 2008	Australia	100%	–

Fermiscan USA had AUD \$18,320 (USD \$12,692) in cash at bank. In addition Fermiscan Holdings Limited had on deposit USD \$404,344 at balance date.

(b) The following is a statement of the transactions that were entered into with related parties for the relevant financial year:

Wholly owned group transactions

Fermiscan Pty Limited acts as the principal operating company for the group, incurring most of the day to day expenses. Fermiscan Australia Pty Limited is the principal patent holder. Amounts payable and receivable are disclosed in their respective notes. Amounts payable are at call and are interest free.

Transactions with associates

Fermiscan Holdings Limited General Counsel, Richard Toltz, is a consultant to Piper Alderman, the Company's solicitors, who are paid for legal services provided to the Company at their normal commercial rates.

Individual directors and executives compensation

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors Report. No director has entered into a material contract with the company or consolidated entity (other than an employment contract) since the end of the previous year and, there were no material contracts involving directors' at 31 December 2008.

The Managing Director, Mr David Young, has been provided with a short term loan of \$100,000 at normal commercial conditions (refer Note 20(e)). An executive has been provided with a short term loan of \$30,000.

Directors interests in shares and options at balance date

The names of each person holding the office of director, and their interests in shares and options at balance date, were:

		Ordinary Shares of Fermiscan Holdings Limited	Options over shares in Fermiscan Holdings Limited
Gary Garton	Appointed as a director on 9 October 2006	41,140	3,300,000
David Young	Appointed as a director on 9 October 2006	1,037,430	10,000,000
Dr Ronald Shnier	Appointed as a director on 9 November 2006	nil	8,300,000

Executives – key management personnel

The names of each person holding the positions of key management personnel were:

Executive	Position held	Date of appointment to position
Leon P Carr	Corporate Strategist	1 May 2006
Gary Corino	Chief Scientific Operations Officer	1 May 2006
Dr Peter French	Chief Scientific Officer	1 May 2006
Richard M Toltz	General Counsel	1 May 2006
Greg West	Company Secretary & Chief Financial Officer	28 May 2006

Notes to the Financial Statements

31 December 2008



Note 19: Segment information

The consolidated entity operated in two business segments being the commercialisation of a non-invasive diagnostic test for the detection of breast cancer (Fermiscan) and as a provider of diagnostic services for women with symptoms of breast disease (Sydney Breast Clinic). The consolidated entity operated predominately in Australia.

	Business segments							
	SBC		Fermiscan		Eliminations and Corporate		Consolidated Entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue								
Sales to customers outside the consolidated entity	2,720	–	–	–	–	–	2,720	–
Other revenue	–	–	1,027	1,362	–	–	1,027	1,362
Total segment revenue	2,720	–	1,027	1,362	–	–	3,747	1,362
Total consolidated revenue	2,720	–	1,027	1,362	–	–	3,747	1,362
Results								
Segment result	(508)	–	(8,736)	(7,384)	–	–	(9,244)	(7,384)
Unallocated expenses	–	–	–	–	–	–	–	–
Consolidated entity profit (loss) from ordinary activities before income tax expense	(508)	–	(8,736)	(7,384)	–	–	(9,244)	(7,384)
Income tax expense	–	–	–	–	–	–	–	–
Consolidated entity profit (loss) from ordinary activities after income tax expense	(508)	–	(8,736)	(7,384)	–	–	(9,244)	(7,384)
Net profit (loss)	(508)	–	(8,736)	(7,384)	–	–	(9,244)	(7,384)
Assets								
Segment assets	2,098	–	13,818	23,626	–	–	15,916	23,626
Unallocated assets	–	–	–	–	–	–	–	–
Total assets	2,098	–	13,818	23,626	–	–	15,916	23,626
Liabilities								
Segment liabilities	3,193	–	889	705	(2,510)	–	1,572	705
Non allocated liabilities	–	–	–	–	–	–	–	–
Total liabilities	3,193	–	889	705	(2,510)	–	1,572	705
Other segment information								
Acquisition of non current segment assets	12	–	308	823	–	–	320	823
Depreciation and amortisation of segment assets	286	–	154	109	–	–	440	109
Impairment Losses	–	–	–	–	–	–	–	–
Other non-cash expenses	–	–	–	–	–	–	–	–

Note 20: Financial disclosures

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The group's overall risk management programme addresses the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group has not used derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, foreign exchange and other price risks.

Risk management is carried out by the Managing Director and the Chief Financial Officer under policies approved by the Audit & Risk committee and the board. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

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

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from funds on deposit. Surplus cash has been invested in term deposits and cash management accounts.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, to meet the ongoing expenditure requirements whilst the group is in start up phase. Management and the Board monitor rolling forecasts of the Group's liquidity on the basis of expected cash flow.

(c) Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement and for disclosure purposes. The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(d) Credit risk exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in Balance Sheet and Notes to the Financial Statements.

The group has no derivative financial instruments or forward exchange contracts.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.



Notes to the Financial Statements

31 December 2008

(e) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Fixed interest rate maturing in:										Total carrying amount as per Balance Sheet		Weighted average Effective interest rate	
	Floating interest rate		1 year or less		Over 1 to 5 years		More than 5 years		Non interest bearing					
	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 %	2007 %
(i) Financial assets														
Cash	1,436	1,797	-	-	-	-	-	-	-	-	1,436	1,797	1.45%	5.9%
Term Deposit	6,079	19,175	-	-	-	-	-	-	-	-	6,079	19,175	4.25%	7.2%
Trade and other receivables	-	-	-	-	-	-	-	-	177	301	177	301	-	N/A
Secured loans	-	-	-	1,000	-	-	-	-	-	-	-	1,000	-	10%
Unsecured loans	-	-	100	-	-	-	-	-	-	-	100	-	9.82%	-
(ii) Financial liabilities														
Trade creditors	-	-	-	-	-	-	-	-	139	169	139	169	-	-
Other creditors	-	-	-	-	-	-	-	-	782	154	782	154	-	-
Finance lease liability	-	-	89	44	76	166	-	-	-	-	165	210	7.80%	7.80%

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

31 December 2008	Carrying amount (\$'000')	Interest rate		Foreign exchange risk	
		-1% Profit (\$'000')	+1% Profit (\$'000')	-10% Profit (\$'000')	+10% Profit (\$'000')
Financial assets					
Cash and cash equivalents in Australian dollars	7,031	(70)	70	N/A	N/A
Cash and cash equivalents in US dollars	484	(5)	5	(48)	48

Note 21: Subsequent events

There has been no matter or circumstance, which has arisen since 31 December 2008 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2008, of the consolidated entity, or
- the results of those operations, or
- the state of affairs, in financial years subsequent to 31 December 2008, of the consolidated entity.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 40 to 60 in are in accordance with the Corporations Act 2001, and:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001, and
- (b) Give a true and fair view of the financial position of the company and consolidated entity as at 31 December 2008 and of their performance as represented by the results of their operations and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Fermiscan Holdings Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Managing Director and chief financial officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ending 31 December 2008.

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



David Young
Director

Sydney, 25 March 2009



Independent Audit Report



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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Sydney NSW 2000
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Pitcher Partners, including Johnston Rorke,
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Melbourne | Sydney | Perth | Adelaide | Brisbane

W M WILSON
C G ARDAGNA
N K BANKS
J P BRIDGER
D A CARTWRIGHT
C J CHIRGWIN
K J CRANFIELD
A W ELKERTON
M A GODLEWSKI
C W HOPE
B W JONES
D S MCGILL
C R MILLINGTON
Y E PIETSCH
R M SHANLEY
D W STAPLES
D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FERMISCAN HOLDINGS LIMITED AND CONTROLLED ENTITIES

We have audited the accompanying financial report of Fermiscan Holdings Limited and controlled entities. The financial report comprises the Balance Sheet as at 31 December 2008, and the Income Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the director's declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Director's Responsibility for the Financial Report

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

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion,

- (a) the financial report of Fermiscan Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Fermiscan Holdings Limited and its controlled entities for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.



MARK GODLEWSKI
25 March 2009



PITCHER PARTNERS
Sydney

Shareholder Information



Information relating to shareholders as at 11 March 2009

Distribution schedule

Ranges	Investors	Securities	Percentage of Issued Capital
1 to 1000	2,138	783,834	0.55
1001 to 5000	920	2,613,962	1.82
5001 to 10000	369	2,993,533	2.09
10001 to 100000	439	12,673,341	8.83
100001 and Over	74	124,442,001	86.72
Total	3,940	143,506,671	100.00

The number of security investors holding less than a marketable parcel of 2,778 securities (\$0.18 on 11/03/09) is 2,652 and they hold 1,759,194 securities. A marketable parcel of shares is valued at not less than \$500.

Voting rights

On a show of hands, every person present in the capacity of a member or the representative of a member which is a body corporate, or the proxy or an attorney of a member or in more than one of those capacities has one vote. On a poll, every member who is present in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative, has one vote in respect of every fully paid share held by such member. No shareholder has any different voting rights than are enjoyed by all shareholders.

Names of twenty largest holders

as at 11 March 2009

Rank	Name	Number of ordinary shares	Percentage of issued capital
1	Rellcain Pty Limited	44,657,084	31.12
2	Lindash Investments Pty Limited	25,773,200	17.96
3	ANZ Nominees Limited (Cash Income A/C)	8,249,405	5.75
4	National Nominees Limited	7,870,219	5.48
5	Willala Pastoral Co Pty Limited	6,295,126	4.39
6	HSBC Custody Nominees (Australia) Limited	5,363,637	3.74
7	RP Prospects Pty Ltd (The M and L A/C)	3,570,000	2.49
8	Merrill Lynch (Australia) Nominees Pty Limited	3,045,460	2.12
9	RD Catelan Superannuation Fund Pty Ltd (RD Catelan Super Fund A/C)	1,960,000	1.37
10	David Colin Young	1,030,930	0.72
11	Citicorp Nominees Pty Limited	1,014,285	0.71
12	Mr Raymond William Burke	753,363	0.52
13	Mr Ronald James Flaherty + Mrs Shirley May Flaherty (Ron Flaherty Superannuation Fund)	709,100	0.49
14	Gerard Thomas Eakin	652,920	0.45
15	PR Prospects Pty Ltd (M&L A/C)	604,949	0.42
16	UBS Wealth Management Australia Nominees Pty Ltd	573,836	0.40
17	Mr Goh Geok Khim	500,000	0.35
18	Ms Jacqueline Sarah Philpott (J Philpott Family A/C)	479,618	0.33
19	Gernis Holdings Pty Limited	442,200	0.31
20	RD Catelan Superannuation Fund Pty Ltd (S/F A/C)	419,847	0.29
		113,965,179	79.41

Names of substantial shareholders

as at 11 March 2009

	Number of ordinary shares	Percentage of issued capital
Rellcain Pty Limited	44,657,084	31.12
Lindash Investments Pty Limited	25,773,200	17.96
Manifest Capital Management Pty Limited	13,912,364	9.71

Corporate Directory

Directors

Gary Garton – Chairman
David Young – Managing Director
Dr Ronald Shnier

Audit & Risk Committee

Gary Garton – Chairman
David Young – Managing Director
Dr Ronald Shnier

Remuneration & Nomination Committee

Gary Garton – Chairman
David Young – Managing Director
Dr Ronald Shnier

Governance Committee

Gary Garton – Chairman
David Young – Managing Director

Scientific and Medical Advisory Board

Dr Ronald Shnier MBBS, FRACR – Chairman
Dr Peter French BSc, MSc, PhD, MBA
Dr Michael Carr MBBS, FANZCA, FANZCR

Ethics Committee – Fermiscan Human Research & Ethics Committee

Professor Ron Penny AO, D.Sc. MD, FRACP, FRCPA – Chairman
Associate Professor Phillip Yuile MB BS (Hons) FRANZCR, MA (Applied Ethics)
Professor Anne Cunningham PhD, FRACP
Dr Russell Ludowyke BSc (Hons), PhD
Rev David West BTh, Dip.Min.
Amanda Lacaze BA, Grad Dip in Marketing and ATCL
David Young Executive MBA
Richard Toltz – General Counsel

Chief Financial Officer and Company Secretary

Greg West

Registered office and principal place of business

Level 5, 48 Hunter Street, Sydney South NSW 2000, Australia
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Website address

www.fermiscan.com.au

Share Registry

LINK Market Services
Level 12, 680 George Street, Sydney, NSW 2000, Australia
Locked Bag A14, Sydney NSW 1235, Australia
Enquiries within Australia: 1300 554 474
Enquiries outside Australia: +61 2 8280 7111
Website: www.linkmarketservices.com.au
Email: registrars@linkmarketservices.com.au

Stock Exchange Listing

Listed on the Australian Stock Exchange
Stock code 'FER'

Auditors

Pitcher Partners

Solicitors

Piper Alderman

Bankers

HSBC Australia Limited



