QRSCIENCES HOLDINGS LTD
AND CONTROLLED ENTITIES

ABN: 26 009 259 876

Annual Financial Report For The Year Ended 30 June 2009

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REPORT OF THE DIRECTORS'

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 30 June 2009.

Principal Activities and Significant Changes in Nature of Activities

The Company's primary focus remains on investment, development, commercialisation and sale of security related technologies and products. The Company's proprietary technologies include patented magnetic sensing technology used to detect explosives, narcotics, weapons and other contraband.

The Company acquired the business and selected assets of Baxall (Australia) Pty Ltd in FY07 and subsequently renamed the business QRSciences Security Pty Ltd. The business is a direct seller and distributor of surveillance and monitoring equipment, including closed circuit television (CCTV) security cameras, digital video recorders (DVR) and related components. The business provides QRSciences with a significantly enhanced presence in the broader security market and, through its well-established sales and distribution capability in Australia and across the Southeast Asian region, the means to accelerate the uptake of QRSciences' own proprietary technologies. We expect the business to continue to grow in the future and be the cornerstone revenue source for the Company for many years to come.

QRSciences has increased its holding in Spectrum San Diego, Inc. (Spectrum), to 27.4% in FY08. during FY09 Spectrum raised capital in the USA which reduced QRSciences holding in Spectrum to 24.2%. Spectrum, based in San Diego, California, specialises in electronic imaging systems and instrumentation. Spectrum is a pioneer in the development of low dose X-ray and backscatter technology which is rapidly gaining acceptance throughout the world for personnel, baggage, cargo and vehicle screening.

The following significant changes in the nature of the principal activities occurred during the financial year:

The consolidated group announced its intention to exit its Research and Development activities in the Quadrupole Resonance and Advanced Metal Detection with adverstisements being placed for the sale of the division;

The consolidated group wound up operations in San Diego with the closure of QR Sciences Co; and

The Company intends to dispose of it's US Listed Shell company, Diversified Opportunities.

Operating Results and Review of Operations for the year

Operating Results

The consolidated profit of the consolidated group after providing for income tax and eliminating minority equity interests amounted to $673k. This represented a 102% increase on the result reported for the year ended 30 June 2008. The significant improvement was largely due to the major reversal of Intellectual Property returned to BTG during the year.

Review of Operations

(i) Update on Proprietary Technologies

QRSciences Pty Ltd (QRS) is the Groups R&D and technology business which is based in Perth Western Australia. QRS specialise in the field of Quadrupole Resonance (QR), focusing on the development of techniques using non-invasive radio waves to detect a range of chemical compounds present in explosives and narcotics. A second breakthrough technology utilising the propriety Advanced Metal Detection Systems (AMDS) technology, the AMDS technology was developed from QRS's R&D activities with the application for the technology being, advanced security screening devices which examine baggage for explosive material and metal objects and screening. The AMDS product developed from the technology is currently being deployed in the Australia Post International Mail Centres throughout Australia.

- Completed two contracts and continues to work on the AMDS research and development contract funded by Australian Customs and the U.S. Technical Support Working Group (TSWG)
- Installations of the proprietary AMDS technology into Australia post mail gateways continues on schedule and maintenance contracts over the next 3 years provide ongoing revenue.
- Development of an enhanced AMDS prototype funded by Australian Customs, The Office of Prime Minister and Cabinet and the US Government through TSWG will further broaden the range of applications of this new technology.
- First phase of the Air Cargo Screening development work sponsored under a NSST contract has been successfully completed. Trials and corresponding results were very positive in a highly publicized area of security and observed by the US Government, Australian Government and military security representatives from the US.
- Continues to develop its core technology Quadrupole Resonance (QR) and to work with interested parties to unlock the potential of the technology in new security/ contraband detection applications.
- Due to slow commercial development and the associated commercial risk of the QR technology the Company offered back a suite of patents to BTG, from whom it originally purchased in 2006 resulting in approximately a $5.97m net gain on reversal.
- The technology group in Perth has undergone significant restructuring over the past 18 months and is operating near breakeven on existing contract research revenue, grant funding, along with product and service revenue.
- Visit http://www.qrsciences.com for more information

(ii) QRSciences Security Distribution Business

The Company's wholly owned distribution business QRSciences Security Pty Ltd is comprised of three divisions, Q Video Systems (QVS), Q Alarm Supplies (QAS) and Q Detection Systems (QDS).

The business operates in the Australia security market and is now seen as one of the market leaders in Closed Circuit Television Systems (CCTV) industry.

The business is now firmly established in Victoria, New South Wales and Queensland and has recently opened up operations in Western Australia. Some of the highlights for the business in FY09 are shown below;

- Revenues in the Q Video Systems (QVS) business continue to hold up and margins improve after improvement in the Australian Dollar against the US Dollar.
- Estimate 15-20% revenue growth in business unit in FY10
- Impact of weak Australian Dollar negatively affected cash flow and profitability in FY09.

• Forecast sales improvement and strengthening Australian dollar should lead to recovery and return to profitability and positive cash flow
• Continued success with IP based video systems from Verint in Canada.
• Success with 2 major retail chain rollouts that will contribute to sales over the next 12 months.
• Continued development of the QVS brand of proprietary CCTV products that will underpin sales in the coming years.
• First sales of Detection Products by the Q Detection Systems (QDS) business in the Saudi Arabia with potential to expand our sales opportunities in the Middle East.
• Establishment and first sales for the Q Alarm Supplies business, which will operate from the Q Video Systems sales locations.

(iii) Spectrum San Diego Business

Spectrum San Diego Inc. was founded in 1998 by Dr. Steve Smith, as a research and development group specializing in the design of electronic imaging systems and instrumentation. Dr. Smith engineered the world's first ultra-low-dose X-ray security screening system (The Secure 1000) in 1992. As the pioneer of ultra-low-dose screening technology, Dr. Smith worked with stakeholders like the Food and Drug Administration (FDA) and government end users throughout the 1990s to establish a regulatory framework for these security systems. Spectrum helped establish ANSI N43.17 (Radiation Safety Standard for Personnel Security Screening Systems Using X-ray or Gamma Radiation) and ANSI N42.47 (Standard for Measuring the Imaging Performance of X-ray and Gamma-ray Systems for Security Screening of Humans). In this way, Dr. Smith's work has laid the foundation for ultra-low-dose X-ray screening equipment sold by Spectrum and four other companies.

Spectrum creates transformative security solutions that are cost effective while providing a level of performance, efficiency and convenience that is unmatched by alternatives. Spectrum continues this innovation today with SentryScope (ultra-high resolution video surveillance), CastScope (partial body scanner), and CarSCAN, a drive-through vehicle inspection system based on ultra-low-dose dual energy transmission X-ray technology. CarSCAN delivers cost effective, high throughput screening of cars and vans for explosives, drugs, currency and stowaways.

Update on the Spectrum San Diego Business
• Spectrum recently raised approximately US$ 1.1m at US$ 7 per share, valuing QRS stake at approximately A$ 5.245m
• Capital raising initiatives by Spectrum has reduced QRS stake to 24.2%
• Ongoing maintenance of CastScope at 11 major airports including Los Angeles, New York, Washington D.C., Denver, Atlanta and Minneapolis.
• Demonstrated CarScan product at FPED VII in May 2009 in the Washington D.C. area. FPED is the premier tradeshow for marketing equipment to the US Government and is sponsored by Office of the Under Secretary of Defense for Acquisition, Technology & Logistics (OUSDAT&L), Department of Energy (DOE), Department of Homeland Security (DHS), Joint Staff (JS), National Institute of Justice (NIJ), National Nuclear Security Administration (NNSA) and Technical Support Working Group (TSWG). Visit http://www.fped7.org for more information.
• Concurrent with FPED an additional CarScan unit underwent testing and field-trials by two US Government agencies at undisclosed locations. Applications for the CarScan product include border and maritime security, critical infrastructure protection and military applications.
• Visit http://www.spectrumsdi.com for more information

(iv) Diversified Opportunities (DVOP.OB)

• DVOP is a fully audited public shell company that trades on the US bulletin board.
• The Company expects to dispose or utilize this asset in the upcoming financial year.

(v) Capital Raising

On 20 April, 2009 the Company announced that it accepted an offer from Helmsman Funds Management Limited as Trustee and Manager of Helmsman Capital Fund II ("Helmsman") to provide expansion capital to fuel the Company's continuing growth and to retire the existing Convertible Note debt with Trafalgar Capital Specialized Investment Fund ("Trafalgar")("Offer"). Under the terms of the Offer Helmsman made an initial investment of up to $2.6 million through a combination of senior debt, a private placement and underwrote the company's renounceable 1 for 2 rights issue.

Helmsman is a Sydney based special situation investor that focuses on industry consolidations, operational turnarounds and financial restructurings. Helmsman has raised over $140 million for investment from institutional and high net worth investors who see the value potential from the unique opportunities that Helmsman uncover.

Structure of the Capital Raising
1. Entered into a $1.2 million interest only Senior Secured Debt Instrument maturing on March 31, 2012. The facility was put in place on 1 May 2009.
2. Entered into an agreement on 1 May 2009 for the Private Placement to Helmsman of 12% of the ordinary shares in QRSciences at 2.182 cents per share on 4 May 2009.
3. Completed an underwritten renounceable rights issue of 1 New Share for every 2 Existing Shares held by eligible shareholders at an issue price of 2.182 cents per New Share, which closed on 17 June and raised $1,103,621.10 before issue costs.

Financial Position

The net assets of the consolidated group have increased by $3.368m (73%) from 30 June 2008 to $7.989m in 2009. This increase is largely due to the following factors:
- The hand back of BTG Patents and the reversal of the associated Liability.
- Proceeds from capital raising activities:

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

ISSUE OF NEW CAPITAL
(i) On 4 May 2009 the company issued 12,425,864 ordinary shares at 2.182 cents each to Helmsman Funds Management Ltd.
(ii) On 18 May 2009 the company issued 50,578,419 ordinary shares at 2.182 cents via a fully underwritten 1:2 rights issue

Dividends

The Company has not paid a dividend since incorporation and no provision for dividend has been made in these accounts.

After Balance Date Events

On 5 September 2009 QRSciences Pty Ltd advertised for expressions of interest to acquire the business of QRScience Pty Ltd, the R&D and technology company that is based in Perth. The Company expects to either sell the business or restructure the business to ensure no further detoriation of the Companies cash holdings in operating this business unit. The Company has also appointed a non exclusive advisor located in California to asisst in the sale of the business to interested parties. Except for the this proposed transaction, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future Developments, Prospects and Business Strategies

The Company's primary focus remains the investment, development, commercialisation and sale of security related technologies and products. The Company's proprietary technologies include patented magnetic sensing technology used to detect explosives, narcotics, weapons and other contraband.

The completion of the Capital Raising was a triumph in very difficult market conditions and positions the Company for an exciting future.

The Board and Management of the Company continue to believe that the real value of the Company is not reflected in the Company's share price as quoted on the ASX. The Board is pleased to report that it is well advanced on a number of fronts with respect to the restructuring, divestiture and sale of it its non-core assets which will allow the market to better appreciate the Company's position and value.

The Board and Management continue to actively seek opportunities to unlock value for the shareholders. Accordingly, we recently announced our intention to divest or restructure the QRSciences Pty Ltd Perth based technology business. We also plan to divest our subsidiary in the US, Diversified Opportunities and believe that within the next twelve months there is a high degree of likelihood that the Company will realize its investment in Spectrum.

The security distribution business in Australia carries with it prospects for future growth, profitability and significant market presence. The Company will also seek opportunities for expansion in aligned business opportunities that will enhance the value of the parent business.

Information on Directors

Richard Stokes	—	Chief Executive Officer
Experience & Qualifications	—	Mr Stokes joined the Company in a Consulting role on 9 February, 2007 where he was the CEO of the acquired business Baxall Australia, Mr Stokes became the CEO and a Director of QRSciences on 19 December, 2007. In October 2008, Mr Stokes became the Executive Chairman and he is also a Director of wholly owned subsidiaries QRSciences Pty Ltd, QRSciences Security Pty Ltd. Mr Stokes has been involved in the electrical and security industry for some 22 years where he has successfully developed and operated numerous electrical contracting and security distribution businesses. He was the founder of Vicam CCTV systems which revolutionised the delivery of CCTV products in the Australian market. The Vicam business was restructured and merged into the Pacific Communications business when it was acquired by the Hills Industries Group. The acquisition was orchestrated and managed by Mr Stokes who then, as General Manager of Pacific Communications, directed its operations to quickly become the local market leader with turnover in excess of $40m. Mr Stokes has an extensive industry contact base locally and internationally and through his vast experience will enable the Company to expand into previously unchartered territory. His role at the Company will encompass the growth and development of the business on a national and international level.
Interest in Shares and Options	—	Shares 2,528,3252. Options 80,826 Listed $0.45 Options exp 30/06/12.
Directorships held in other listed entities during the three years prior to the current year	—	None
Kevin Russeth	—	Director
Experience & Qualifications	—	Mr Russeth joined QRSciences in 2002 as CEO and Chairman of the Board of Directors. He is also Director of wholly owned subsidiaries QRSciences Pty Ltd, QRSciences Security Pty Ltd and QRSciences Corporation and is QRSciences Corporation's representative as a Non-Executive Director on the Board of Directors of Spectrum San Diego Inc. Mr Russeth commenced his business career with Electronic Data Systems in Dallas, Texas and is a graduate of their Systems Engineer Development (SED) Program. In 1985 Mr Russeth joined EF Hutton & Co (later acquired by Shearson Lehman Brothers) spending 11 years with global investment banks, including Shearson Lehman Brothers, Merrill Lynch, and most recently with Smith Barney as Vice President. Mr Russeth held NASD Series 7, 9 and 10 licences until 2002 when he left Smith Barney. He has had substantial experience in the public and private capital markets in both Australia and the United States and has been involved in a variety of complex domestic and international business transactions. Mr Russeth completed his undergraduate study at Gustavus Adolphus in St. Peter, Minnesota graduating with honours and a degree in Business Administration. He was accepted into the MBA program at Boston College School of Management, Chestnut Hill, Massachusetts in April 1985.

Interest in Shares and Options	—	Shares 7,896,105
Directorships held in other listed entities during the three years prior to the current year	—	None
Robert Halverson	—	Non-Executive Director
Experience & Qualifications	—	Mr Halverson joined the QRSciences Board on 21 August 2006. He has had a long and distinguished career in the service of Australia, firstly with the Royal Australian Air Force, then as a member of the Australian Federal Parliament and as Speaker of the House of Representatives, more recently in the Department of Foreign Affairs and Trade as Australian Ambassador to Ireland and the Holy See. Mr Halverson brings with him considerable experience in the areas of government, international relations and finance, which complements existing Board expertise in aviation and homeland security. He worked at Robertson Thompson Partners, stockbrokers, as a financial adviser, completing the Securities Institute of Australia course in 1984.
Interest in Shares and Options	—	Shares 2,745,276 Options 42,000
Directorships held in other listed entities during the three years prior to the current year	—	None
Douglas Potter	—	Director (appointed 29 June 2009)
Experience & Qualifications	—	Douglas Potter is Managing Director of Helmsman Funds Management Limited, Douglas is responsible for the fund raising as well as originating, managing and exiting investments. He is currently a Director of several Helmsman portfolio companies including Zone Advanced Protection Systems, National Medical and Imaging Group. Helmsman Capital is a mid market special situations fund, investing in company's requiring balance sheet restructuring, operational turnaround and loan to own strategies and industry consolidations. With over 19 years hands on experience Douglas has been involved in a large number of turnaround investment, strategy review, business planning, restructuring and recovery assignments. Prior to joining Helmsman he worked for KPMG Corporate Recovery where he was admitted to partnership in 2002. He was a foundation partner of McGrath Nicol on 1 July 2004. Douglas holds a Bachelor of Economics from University of Sydney and has completed an Advanced Insolvency Course through the Insolvency Practitioners Association of Australia. He is a member of the Institute of Chartered Accountants in Australia and the Australian Private Equity & Venture Capital Association.
Interest in Shares and Options	—	None
Directorships held in other listed entities during the three years prior to the current year	—	None
Raymond Schoer	—	Non-Executive Director (retired 7 October 2008)
Experience & Qualifications	—	Mr Schoer is chairperson of the Asia Pacific Exchange. His other directorships and committees include chairperson of Japara Compliance Committee and Plouton Resources Ltd and a director of Benetas Aged Care Services Group. Mr Schoer was also chairperson of the Australia Pacific Exchange from 2001 to 2008, Group chairperson of IOOF Limited from 2002 to 2005, chairperson of IOOF Funds Management from 1999 to 2005 and chairperson of Sydney Gas Ltd in 2005-2006.
Experience & Qualifications	—	Mr Schoer is a Fellow of the Australian Society of Certified Practicing Accountants, a Fellow of the Australian Institute of Company Directors, a Fellow of the Institute of Corporate Managers, Secretaries and Administrators, and a Fellow of the Chartered Institute of Company Secretaries. Mr Schoer is also a member of the Advisory Board of the Graduate Program in Corporations and Securities Law of the University of Melbourne and emeritus trustee of the Committee for Economic Development of Australia (CEDA). From 1990 to 1995 Mr Schoer was the National Director of the Australian Stock Exchange Limited and from 1980 to 1990 he was the Chief Executive of the National Companies and Securities Commission. Prior to that he was Secretary to the Commonwealth/State Ministerial Council for Companies and Securities and held senior positions in several government departments including the Australian Treasury.
Interest in Shares and Options	—	Shares - 164,372
Directorships held in other listed entities during the three years prior to the current year	—	as per above

Company Secretary

Mr Jamie Taylor was appointed as Company Secretary / Chief Financial Officer on 19 December, 2007. Mr Taylor started working with QRSciences Security Pty Ltd as the Commercial manager on 2 November, 2006, in this role he was responsible for all accounting and commercial aspects of the business.

Mr Taylor previously worked for over 7 years in a high profile public practice firm where he serviced a diverse portfolio of clients in varied industries.

Meetings of Directors

During the financial year, 6 meetings of directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Nominating Committee		Human Resources		Operating Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Richard Stokes	6	6	-		-	-	-	-	-	-
Kevin Russeth	6	6	-		-	-	-	-	-	-
Robert Halverson	6	6	1	1	-	-	-	-	-	-
Douglas Potter	-	-	-	-	-	-	-	-	-	-
Raymond Schoer	2	2	1	-	-	-	-	-	-	-

Indemnifying Officers or Auditor

During or since the end of the financial year, the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has entered into an agreement to indemnify the directors and officer holders to an amount of $10m, against any liability arising from a claim brought by a third party against the company. The agreement provides for the company to pay all damages and costs which may be awarded.

Options

At the date of this report, the unissued ordinary shares of QRSciences Holdings Ltd under option are as follows

Grant Date	Date of expiry	Exercise price		Number under option
16-Aug-07	30-Jun-12	$	0.450	43,035,039
	30-Sep-10	$	1.000	50,500
23-May-08	10-May-12	$	0.300	1,114,384
	10-May-14	$	0.587	3,801,547
	10-May-14	$	0.797	3,801,547
	19-Oct-12	$	0.300	906,859
22-Apr-08	22-Apr-10	$	0.150	450,000
22-Apr-08	11-Apr-11	$	0.200	450,000
	10-May-14	$	0.237	7,500,000
				61,109,876

Options holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid / payable to the external auditors during the year ended 30 June 2009:

- Taxation Services $ 35,154

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

REMUNERATION REPORT

Remuneration policy

The remuneration policy of QRSciences Holdings Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of QRSciences Holdings Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy is required to be developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholder interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and are valued using the Black-Scholes methodology.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, i.e. put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficult of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPI's are set for the following year.

In determining whether or not a KPI has been achieved, QRSciences Holdings Ltd bases the assessment on audited figures, however, where the KPI involves comparison of the group or a division within the group to the market, independent reports are obtained from organisations such as Standard & Poors.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in increasing shareholder wealth over the past four years.

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

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The following table shows the gross revenue and profits for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	2005	2006	2007	2008	2009
	$000s	$000s	$000s	$000s	$000s
Revenue	2,257	2,667	14,274	16,730	18,009
Net Profit/(Loss)	(6,109)	(6,790)	(10,736)	(33,940)	673
	$	$	$	$	$
Share Price at Year-end	0.810	0.540	0.335	0.090	0.025

Performance Conditions linked to Remuneration

The group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of various cash bonus reward schemes, specifically, the incorporation of incentive payments based on the achievement of revenue targets, return on equity ratios, and continued employment with the Group.

The performance related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the group and to provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since grant date.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, were amongst the five group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of option.

	Position Held as at 30 June 2009 and any change during the year	Contract details (duration & termination)
Group Key Management Personnel		
Richard Stokes	Chief Executive Officer	Consultancy Agreement. Expires Dec 2009
Kevin Russeth	Director	Executive Service Agreement. Expires Feb 2010
Robert Halverson	Non-Executive Director	No Contract in place
Douglas Potter	Director	as Per Loan Facility Agreement with Helmsman
Raymond Schoer	Director	Ceased directorship 7 October 2008
Jamie Taylor	Chief Financial Officer/Company Secretary	Standard Employment Contract

	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Non-salary cash based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/Fees %	Total %
Group Key Management Personnel					
Richard Stokes	18	-	-	82	100
Kevin Russeth	-	-	-	100	100
Robert Halverson	-	75	-	25	100
Douglas Potter	-	-	-	100	100
Raymond Schoer	-	-	-	100	100
Jamie Taylor	-	-	-	100	100

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment. Terms of employment require that the relevant Group entity provide an executive contracted person with a minimum of one months notice to terminate contract. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one months notice. Termination payments are not payable on resignation or in the circumstances of unsatisfactory performance.

Note A:
Non-executive directors are subject to similar contracts requiring one months notice to be given on termination. Termination payments are at the discretion of the remuneration committee.

Changes in Directors and Executives Subsequent to Year End

None

Remuneration Details for the Year Ended 30 June 2009

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:-

Table of Benefits and Payments for the year ended 30 June 2009

	Short-term benefits				Post Employment Benefits		Long-term benefits
	Salary, Fees and Leave	Profit Share and bonuses	Non-monetary	Other	Pension and superannuation	Other	Incentive Plans
2009	$	$	$	$	$	$	$
Group Key Management Personnel							
Richard Stokes	252,323	56,382	-	-	7,589	-	-
Kevin Russeth	336,951	-	-	-	8,867	-	-
Robert Halverson	11,250	-	-	-	-	-	-
Douglas Potter	-	-	-	-	-	-	-
Raymond Schoer	13,750	-	-	-	-	-	-
Jamie Taylor	125,538	-	-	-	11,298	-	-
	739,812	56,382	-	-	27,754	-	-

	Long-term benefits	Equity-settled share-based payments		Cash-settled shared based payments	Termination benefits	Total
	LSL	Shares/Units	Options/Rights			
2009	$	$	$	$	$	$
Group Key Management Personnel						
Richard Stokes	-	-	-	-	-	316,294
Kevin Russeth	26,876	-	-	-	-	372,694
Robert Halverson	-	33,750	-	-	-	45,000
Douglas Potter	-	-	-	-	-	-
Raymond Schoer	-	-	-	-	-	13,750
Jamie Taylor	-	-	-	-	-	136,836
	26,876	33,750	-	-	-	884,574

	Salary, Fees and Leave	Incentive Share Plan Salary Sacrifice	Superannuation Contribution	Cash Bonus	Shares / Options	Total	Performance Related
2008	$	$	$	$	$	$	%

Group Key Management Personnel							
Richard Stokes	392,643	-	-	-	14,675	407,318	43.36
Kevin Russeth	337,126	66,844	-	-	13,675	417,645	-
Robert Halverson	-	48,500	-	-	-	48,500	-
Raymond Schoer	36,188	17,312	-	-	-	53,500	-
Jamie Taylor	61,250	-	5,513	-	3,735	70,498	-
Norman Shanks	-	26,620				26,620	-
Joe Paresi	36,395					36,395	-
Darren Bromley	110,114	31,555	18,520	8,455		168,644	-
	973,716	190,831	24,033	8,455	32,085	1,229,120	

Securities Received that are not Performance Related

No key management personnel are entitled to receive securities as part of their remuneration package, which are not performance-based.

Cash Bonuses, Performance-Related Bonuses and Share-based Payments

None paid during 2009 Financial Year.

Director ***Richard Stokes***

MOORE STEPHENS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF QRSCIENCES HOLDINGS LTD AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act *2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

MOORE STEPHENS

Name of Firm **Moore Stephens**
Chartered Accountants

Name of Partner **Suan-Lee Tan**
Partner

Signed at Perth this 30th day of September 2009.

Moore Stephens Perth ABN 75 368 525 284
Level 3, 12 St Georges Terrace Perth , Western Australia 6000
Telephone +61 8 9225 5355 Facsimile +61 8 9225 6181
Email perth@moorestephens.com.au Website www.moorestehphens.com.au

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876 AND CONTROLLED ENTITIES
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
Revenue	2	18,022	16,783	452	71
Other income	2	56	1,456	50	233
Changes in inventories of finished goods and work in progress		(13,474)	(11,998)	-	-
Employee benefits expense		(3,031)	(3,288)	(522)	(352)
Consulting fees		(471)	(622)	(221)	(155)
Legal expenses		(171)	(169)	(169)	(167)
Travel expenses		(165)	(208)	(46)	(42)
Rent & occupancy costs		(247)	(264)	-	-
Printing, stationery & postage		(64)	(148)	(20)	(43)
Advertising & promotion		(193)	(174)	-	-
Provision for doubtufl debt - loan to subsidiary		-	-	4,513	(31,617)
Provision for diminution of investment		-	-	(11,944)	(10,531)
Impairment of property plant and equipment		(111)	(134)	-	-
Other expenses		(1,557)	(684)	(434)	(373)
Finance costs		(482)	(477)	(239)	(290)
Share of net profits/(losses) of associates		-	(316)	-	-
Profit before income tax	3	(1,888)	(243)	(8,580)	(43,266)
Income tax expense	4	(116)	84	0	(0)
Profit from continuing operations		(2,004)	(159)	(8,580)	(43,266)
Profit/(loss) from discontinued operations	5	2,677	(33,781)	-	-
Profit for the year		673	(33,940)	(8,580)	(43,266)
Profit attributable to members of the parent entity		673	(33,940)	(8,580)	(43,266)
Overall Operations					
Basic earnings per share (cents per share)	7	0.005	(0.430)		
Diluted earnings per share (cents per share)	7	0.004	(0.250)		
Continuing Operations					
Basic earnings per share (cents per share)	7	(0.013)	(0.002)		
Diluted earnings per share (cents per share)	7	(0.009)	(0.001)		
Discontinued Operations					
Basic earnings/(loss) per share (cents per share)	7	0.018	(0.392)		

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876 AND CONTROLLED ENTITIES
BALANCE SHEET AS AT 30 JUNE 2009

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	1,675	1,120	1,490	852
Trade and other receivables	9	3,496	4,096	430	-
Inventories	10	4,441	4,472	-	-
Other assets	17	134	144	14	14
		9,746	9,832	1,934	866
Non-current assets classified as held for sale	5	162	-	-	-
TOTAL CURRENT ASSETS		9,908	9,832	1,934	866
NON-CURRENT ASSETS					
Trade and other receivables	9	-	861	-	-
Investments accounted for using the equity method	11	-	2,314	-	-
Other financial assets	13	3,319	110	9,382	17,530
Property, plant and equipment	15	333	562	-	-
Deferred tax assets	20	179	299	-	-
Intangible assets	16	-	1,872	-	-
Other assets	17	189	-	189	-
TOTAL NON-CURRENT ASSETS		4,019	6,017	9,571	17,530
TOTAL ASSETS		13,927	15,849	11,505	18,396
CURRENT LIABILITIES					
Trade and other payables	18	2,400	3,287	173	145
Borrowings	19	1,604	1,600	-	433
Current tax liabilities	20	95	215	-	-
Short-term provisions	21	7	-	-	-
		4,106	5,102	173	578
Liabilities directly associated with non-current assets classified as held for sale	5	345	-	-	-
TOTAL CURRENT LIABILITIES		4,451	5,102	173	578
NON-CURRENT LIABILITIES					
Trade and other payables	18	-	5,115	-	-
Borrowings	19	1,461	936	1,430	867
Other long-term provisions	21	27	75	27	-
TOTAL NON-CURRENT LIABILITIES		1,488	6,126	1,457	867
TOTAL LIABILITIES		5,939	11,228	1,630	1,445
NET ASSETS		7,989	4,621	9,876	16,951
EQUITY					
Issued capital	22	70,790	69,285	70,790	69,285
Reserves		421	(769)	52	52
Retained earnings		(63,222)	(63,895)	(60,966)	(52,386)
Parent interest		7,989	4,621	9,876	16,951
Minority equity interest		-	-	-	-
TOTAL EQUITY		7,989	4,621	9,876	16,951

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876 AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	Note	Share Capital						
		Ordinary	Redeemable Preference	Convertible Preference	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Total
Consolidated Group		$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2007		59,324			(29,955)	(377)		28,992
Shares issued during the year (net of transaction costs incurred)		9,961						9,961
Profit attributable to members of parent entity					(33,940)			(33,940)
Adjustments from translation of foreign controlled entities						(444)		(444)
Option reserve on recognition of bonus element of options							52	52
Sub-total		69,285	-	-	(63,895)	(821)	52	4,621
Dividends paid or provided for					-			-
Balance at 30 June 2008		69,285	-	-	(63,895)	(821)	52	4,621
Shares issued during the year (net of transaction costs incurred)		1,505						1,505
Profit attributable to members of parent entity					673			673
Adjustments from translation of foreign controlled entities						1,190		1,190
Sub-total		70,790	-	-	(63,222)	369	52	7,989
Dividends paid or provided for					-			-
Balance at 30 June 2009		70,790	-	-	(63,222)	369	52	7,989

	Note	Share Capital						
		Ordinary	Redeemable Preference	Convertible Preference	Retained Earnings	Foreign Currency Translation	Option Reserve	Total
Parent Entity		$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2007		59,324			(9,120)			50,204
Shares issued during the year (net of transaction costs incurred)		9,961						9,961
Profit attributable to members of parent entity					(43,266)			(43,266)
Option reserve on recognition of bonus element of options							52	52
Sub-total		69,285	-	-	(52,386)	-	52	16,951
Dividends paid or provided for					-			-
Balance at 30 June 2008		69,285	-	-	(52,386)	-	52	16,951
Shares issued during the year (net of transaction costs incurred)		1,505						1,505
Profit/(Loss) attributable to members of parent entity		-			(8,580)			(8,580)
Sub-total		70,790	-	-	(60,966)	-	52	9,876
Dividends paid or provided for					-			-
Balance at 30 June 2009		70,790	-	-	(60,966)	-	52	9,876

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876 AND CONTROLLED ENTITIES
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		20,581	17,635	-	-
Interest received		126	83	17	71
Grants		918	420	-	-
Other Income		-	1	-	-
Payments to suppliers and employees		(23,389)	(23,071)	(582)	(1,374)
Finance costs		(306)	(265)	(92)	-
Income tax paid		(120)	-	-	-
Net cash provided by (used in) operating activities	26	(2,190)	(5,197)	(657)	(1,303)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of Equity Investments		50	650	-	650
Loans repaid by other entitities		1,145	-	455	-
Purchase of property, plant and equipment		(73)	(176)	-	-
Purchase of available-for-sale investments		(99)	-	(128)	-
Loans to other entities		-	(861)	-	-
Loans to controlled entities		-	-	(134)	(4,101)
Payments for investment in controlled entities		-	-	-	(1,180)
Net cash provided by (used in) investing activities		1,023	(387)	193	(4,631)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,321	9,821	1,375	9,821
Proceeds from borrowings		1,200	1,802	1,200	1,300
Repayment of borrowings		(1,554)	(4,782)	(1,405)	(4,567)
Convertible Note Interest & Fees		(67)	-	(68)	-
Net cash provided by (used in) financing activities		900	6,841	1,102	6,554
Net increase in cash held		(267)	1,257	638	620
Cash at beginning of financial year	8	1,120	(137)	852	232
Cash at end of financial year	8	853	1,120	1,490	852

The accompanying notes form part of these financial statements.

This financial report includes the consolidated financial statements and notes of QRSciences Holdings Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of QRSciences Holdings Ltd as an individual parent entity ('Parent Entity').

Note 1 Statement of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

A controlled entity is any entity over which QRSciences Holdings Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a deminishing value basis over the asset's useful life to the consolidated group 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 depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	5 - 37.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as (a) the amount at which the financial asset or financial liability is measured at initial recognition (b) less principal repayments (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post acquisition reserves of its associates.

(i) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position 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
— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Provision for Warranties

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated group's history of warranty claims.

(n) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(o) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividend received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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

(p) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(r) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(s) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

(u) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates

(a) Impairment

The group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(v) New Accounting Standards for application in future periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group is as follows:-

• AASB 3 "Business Combinations", AASB 127 "Consolidated and Separate Financial Statements", AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group is not able to be determined. Changes to accounting requirements include:-

- acquisition costs incurred in a business combination will no longer be booked to goodwill but will be expensed unless the cost relates to issuing debt or equity securities.
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition.
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value.

- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy).
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income.
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee.
- where there is in substance no change to group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent's share of net assets acquired or it will change so that goodwill recognised with also reflect that of the non-controlling interest.

• AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038 (applicable for annual reporting periods commencing from 1 January 2009). This standard replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regulatory reviewed by the group's board for the purposes of decision making. Whilst the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic level at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management presently do not believe impairment will result however.

• AASB 101 "Presentation of Financial Statements", AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101", and AASB 2007-10 "Further Amendments to Australian Accounting Standards arising from AASB 101" (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

• AASB 123 "Borrowing Costs" and AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]" (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

• AASB 2008-1 "Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions and Cancellations [AASB 2]" (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

• AASB 2008-2 "Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2]" (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation;

• AASB 2008-5 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-5) and AASB 2008-6 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect

• AASB 2008-8 "Amendments to Australian Accounting Standards – Eligible Hedged Items" [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.

• AASB 2008-13 "Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009) This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

• AASB Interpretation 15 "Agreements for the Construction of Real Estate" (applicable for annual reporting periods commencing from 1 January 2009) Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of 'construction contract' per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of 'construction contract', revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Group.

• AASB Interpretation 16 "Hedges of a Net Investment in a Foreign Operation" (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

• AASB Interpretation 17 "Distributions of Non-Assets to Owners" (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the Group's financial statements.

Note 2 Revenue and Other Income

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
Sales Revenue					
— sale of goods		18,009	16,730	-	-
— provision of services		-	-	431	-
Total Sales Revenue		18,009	16,730	431	-
Other Revenue					
— dividends received	2(a)	-	-	-	26
— interest received	2(b)	13	53	21	45
Total Other Revenue		13	53	21	71
Total Sales Revenue and Other Revenue		18,022	16,783	452	71

Other Income				
— gains on disposal of non-current investments	46	233	50	233
— FX Gains	-	1,124	-	-
— other income	10	99	-	-
Total Other Income	56	1,456	50	233
(a) Dividend revenue from:				
— other corporations	-	-	-	26
Total dividend revenue	-	-	-	26
(b) Interest revenue from:				
— partly owned subsidiaries	-	-	8	-
— other persons	13	53	13	45
Total interest revenue on financial assets not at fair value through profit or loss	13	53	21	45

Note 3 Profit for the Year

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
(a) Expenses	$000	$000	$000	$000
Cost of sales	13,474	11,998	-	-
Interest expense on financial liabilities not at fair value through profit or loss:				
— Other persons	281	70	227	63
— Convertible Note Fees	-	-	-	227
— Other Finance Costs	201	407	397	-
Total interest expense	482	477	624	290
Impairment of non-current investments	-	-	11,944	10,531
Foreign currency translation losses	-	-	-	-
Bad and doubtful debts:				
— trade receivables	580	52	-	-
— wholly-owned subsidiaries	-	-	(4,513)	31,617
— other related parties	-	-	-	-
Total bad and doubtful debts	580	52	(4,513)	31,617
Loss on disposal of non-current investments	49	-	49	-
(b) Significant Revenue and Expenses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Consideration on disposal of [insert details] division	-	-	-	-
Carrying amount of net assets sold	-	-	-	-
Net gain on disposal of [insert details] division	-	-	-	-

Note 4 Income Tax Expense

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
(a) The components of tax expense comprise:					
Current tax		-	211		
Deferred tax	20	120	(299)		
Prior year tax adjustment		(4)	4		
		116	(84)	-	-
(b) The prima facie tax expense/(benefit) on profit/(loss) from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax expense/(benefit) on profit/(loss) from ordinary activities before income tax at 30%(2008: 30%):		237	(10,207)	(2,574)	(12,980)
Add:					
Tax effect of:					
— Revenue losses not recognised		510	1,052	484	439
— Impairment of assets		-	8,358	2,197	12,644
— Prior year tax adjustments		9	-	-	-
— Share based payments		-	16	-	16
— Overseas losses not recognised		58	123	-	-
— Effect of lower rate of tax on overseas loss		58	123	-	-
— Other non-allowable items		897	184	63	50
— Other deferred tax balances not recognised		-	826	-	-
— Excess franking offsets converted to revenue losses not recognised		-	11	-	11
— Franking Credits		-	3	-	3
		1,769	489	170	184
Less:					
Tax effect of:					

— Other deferred tax balances not recognised	917	-	155	173
— Revenue losses recouped not previously recognised	-	215	-	-
— Prior year tax adjustment	-	242	-	-
— Other non-assessable items	736	105	15	-
— Rebateable fully franked dividends	-	11	-	11
Income tax attributable to entity	116	(84)	(0)	0
The applicable weighted average effective tax rates are as follows:	15.0%	1.0%	0.0%	0.0%

Note 5 Non-Current Assets held for sale and Discontinued Operations

(a) Non-current Assets classified as held for sale

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Disposal group held for sale (discountinued operation)				
Trade and Other Receivables	-	-	-	-
Prepayments	24	-	-	-
Property, plant and equipment	136	-	-	-
Intangible Assets	2	-	-	-
Total assets of disposal group held for sale	162	-	-	-

On 15 July 2009 the Company announced its intention to explore options regarding exiting its Research & Development business QRSciences Pty Ltd, thereby discontinuing its operations in this business segment. This announcement was made subsequent to the approval by the group's board and

In February 2009 the board resolved its intent to investigate the sale of its listed US shell company DVOP.OB, thereby discontinuing its operations in this business segment.

(b) Liabilities directly associated with non-current assets classified as held for sale

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Disposal group held for sale (discountinued operation)				
Trade and Other Payables	266	-	-	-
Lease Liabilities	8	-	-	-
Long-term Provisions	71	-	-	-
Total assets of disposal group held for sale	345	-	-	-

(c) Discontinued Operation

In February 2009 the board resolved to wind up the operations of its wholly owned US subsidiary QR Sciences Co, thereby discontinuing its operations in this business segment.

Financial information relating to the discontinued operation to the date of disposal is set out below and at Note 25: Segment Reporting.

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the income statement is as follows:

Revenue	7,451	2,132
Expenses	(4,774)	(35,913)
Profit before income tax	2,677	(33,781)
Income tax expense		
Profit attributable to members of the parent entity	2,677	(33,781)
Profit on sale before income tax		
Income tax expense		
Profit (loss) on sale after income tax	-	-
Total profit after tax attributable to the discontinued operations	2,677	(33,781)
The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow/(outflow) from operating activities	(688)	-
Net cash inflow/(outflow) from investing activities	95	-
Net cash inflow/(outflow) from financing activities	(48)	-
Net cash increase in cash generated by the discontinuing division	(641)	-

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	71	98	37	46

— taxation services	55	31	14	11
— due diligence services	-	-	-	-
— taxation services provided by related practice of auditor	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	34	52	-	-

Note 7 Earnings per Share

	Consolidated Group	
	2009	2008
	$000	$000
(a) Reconciliation of earnings to profit or loss		
Profit	673	(33,940)
Profit attributable to minority equity interest		
Redeemable and converting preference share dividends		
Earnings used to calculate basic EPS	673	(33,940)
Dividends on converting preference shares		
Earnings used in the calculation of dilutive EPS	673	(33,940)
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit/(loss) from continuing operations	(2,004)	(159)
Profit attributable to minority equity interest in respect of continuing operations	-	-
Redeemable and converting preference share dividends		
Earnings used to calculate basic EPS from continuing operations	(2,004)	(159)
Dividends on converting preference shares	-	-
Earnings used in the calculation of dilutive EPS from continuing operations	(2,004)	(159)
(c) Reconciliation of earnings to profit or loss from discontinuing operations		
Profit from discontinuing operations	2,677	(33,781)
Profit attributable to minority equity interest		
Redeemable and converting preference share dividends		
Earnings used to calculated basic EPS from discontinuing operations	2,677	(33,781)
	No.	No.
(d) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	90,202,749	79,203,567
Weighted average number of options outstanding	61,109,876	54,578,753
Weighted average number of converting preference shares on issue	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	151,312,625	133,782,320

(e) Diluted earnings per share is not reflected for discontinuing operations as the result is anti-dilutive in nature.

Note 8 Cash and Cash Equivalents

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
Cash at bank and in hand		1,675	1,120	1,490	852
Short-term bank deposits		-	-	-	-
	29	1,675	1,120	1,490	852

The effective interest rate on short-term bank deposits was 2.5% (2008: 2.75%); these deposits have an average maturity of 30 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	Note				
Cash and cash equivalents		1,675	1,120	1,490	852
Bank overdrafts	19	(822)	-	-	-
		853	1,120	1,490	852

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 19 for further details.

Note 9 Trade and Other Receivables

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
CURRENT					

Trade receivables	9e	4,064	4,286	-	-
Provision for impairment	9d(i)	(568)	(190)	-	-
		3,496	4,096	-	-
Term receivables		-	-	-	-
Provision for impairment	9d(ii)	-	-	-	-
		-	-	-	-
Other receivables		-	-	3	-
Amounts receivable from:					
— wholly-owned subsidiaries		-	-	427	-
— partly-owned subsidiaries		-	-	-	-
— associated companies		-	-	-	-
— provision for impairment - associated companies	9d(iii)	-	-	-	-
— other related parties		-	-	-	-
— provision for impairment - other related parties	9d(iv)	-	-	-	-
— subsidiaries of ultimate parent entity		-	-	-	-
— key management personnel		-	-	-	-
Total current trade and other receivables		3,496	4,096	430	-
NON-CURRENT					
Trade receivables		-	-	-	-
Provision for impairment	9d(v)	-	-	-	-
		-	-	-	-
Term receivables		-	-	-	-
Provision for impairment	9d(v)	-	-	-	-
		-	-	-	-
		-	-	-	-
Amounts receivable from:					
— ultimate parent entity		-	-	-	-
— wholly-owned entities		-	-	27,104	31,617
— provision for impairment - wholly-owned subsidiaries	9d(vi)	-	-	(27,104)	(31,617)
— associated companies		-	-	-	-
— provision for impairment - associated companies	9d(vii)	-	-	-	-
— Convertible Note - Spectrum San Diego Inc		-	861	-	-
— directors of parent entity		-	-	-	-
— key management personnel		-	-	-	-
Total non-current trade and other receivables		-	861	-	-

(a) **Provision For Impairment of Receivables**

Current trade and term receivables are non-interest bearing loans and generally on 30 day end of month terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when their is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1 July 2007	Charge for the Year	Amounts Written Off	Closing Balance 30 June 2008
Consolidated Group	$000	$000	$000	$000
(i) Current trade receivables	-	190		190
(ii) Current term receivables				-
(iii) Current associated companies				-
(iv) Current other related parties				-
(v) Non-current term receivables	-	-	-	-
(vii) Non-current associated companies	-	-	-	-
	-	190	-	190
Parent Entity				
(i) Current trade receivables	-	-	-	-
(vi) Non-current wholly owned subsidiaries	-	31,617	-	31,617
(vii) Non-current associated companies	-	-	-	-
	-	31,617	-	31,617

	Opening Balance 1 July 2008	Charge for the Year	Amounts Written Off	Closing Balance 30 June 2009
Consolidated Group	$000	$000	$000	$000
(i) Current trade receivables	190	378	-	568
(ii) Current term receivables	-			-
(iii) Current associated companies	-			-
(iv) Current other related parties	-			-
(v) Non-current term receivables	-	-	-	-
(vii) Non-current associated companies	-			-
	190	378	-	568
Parent Entity				
(i) Current trade receivables	-	-	-	-
(vi) Non-current wholly owned subsidiaries	31,617	(4,513)	-	27,104
(vii) Non-current associated companies	-	-	-	-
	31,617	(4,513)	-	27,104

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

Credit risk - Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 9. The main source of credit risk to the Group is considered to relate to the class of assets described as Trade and Other Receivables.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Consolidated Group	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2009	$000	$000	$000	$000	$000	$000	$000
Trade and term receivables	4,063	568	1,044	185	114	640	1,512
Other receivables							
Total	4,063	568	1,044	185	114	640	1,512

Consolidated Group	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2008	$000	$000	$000	$000	$000	$000	$000
Trade and term receivables	4,286	190	373	13	87	152	3,471
Convertible Note	-	-	-	-	-	-	-
Total	4,286	190	373	13	87	152	3,471

Parent Entity	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2009	$000	$000	$000	$000	$000	$000	$000
Trade and term receivables	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Parent Entity	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2008	$000	$000	$000	$000	$000	$000	$000
Trade and term receivables	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

(c) **Collateral held as security**
Included in trade debtors is an amount owing to the parent company of $51,346 at balance date 30 June 2009.

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
(d) **Financial Assets classified as loans and receivables**					
Trade and other Receivables					
— Total Current		3,496	4,096	430	-
— Total Non-Current		-	861	-	-
		3,496	4,957	430	-
Financial Assets	29	3,496	4,957	430	-

(e) **Collateral pledged**
A floating charge over trade receivables has been provided for certain debt. Refer to Note 19 for further details.

Note 10 Inventories

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
CURRENT					
At net realisable value					
Finished goods		4,441	4,472	-	-
		4,441	4,472	-	-
		4,441	4,472	-	-

Note 11 Investments Accounted for Using the Equity Method

	Note	Consolidated Group	Parent Entity

		2009	2008	2009	2008
		$000	$000	$000	$000
Associated companies	12a	-	2,314	-	-
		-	2,314	-	-

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2009	Ownership Interest 2008	Carrying Amount of Investment 2009	Carrying Amount of Investment 2008
				%	%	$000	$000
Unlisted:							
Spectrum San Diego Inc	Developer of x-ray & backscatter technology	USA	Ord	24.20%	27.40%	-	2,314
						-	2,314

(a) **Movements during the Year in Equity Accounted Investments in Associated Companies**

	Note	Consolidated Group 2009	Consolidated Group 2008	Parent Entity 2009	Parent Entity 2008
		$000	$000	$000	$000
Balance at beginning of the financial year		2,314	2,999	-	-
Add: New investments during the year		-	-	-	-
Share of associated company's profit after income tax	12b	-	(316)	-	-
Less: Dividend revenue from associated company		-	-	-	-
Foreign exchange morvements		956	(369)	-	-
Other - transferred to other financial assets - see Note 13		(3,270)		-	-
Balance at end of the financial year		-	2,314	-	-

(b) **Equity accounted profits of associates are broken down as follows:**

Share of associate's profit before income tax expense		(316)		
Share of associate's income tax expense				
Share of associate's profit after income tax	-	(316)	-	-

(c) **Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**

Current assets		249		
Non-current assets		550		
Total assets	-	799	-	-
Current liabilities		250		
Non-current liabilities		1,046		
Total liabilities	-	1,296	-	-
Net assets	-	(497)	-	-

Note 13 Other Financial Assets

	Note	Consolidated Group		Parent Entity	
Financial assets at fair value through profit or loss	13a	49	-	49	-
Available-for-sale financial assets	13b	3,270	110	9,333	17,530
		3,319	110	9,382	17,530

(a) **Financial assets at fair value through profit or loss**

NON-CURRENT					
Held-for-trading-Australian listed shares		49	-	49	-

Shares held for trading are traded for the purpose of short term profit taking. Changes in fair value are included in the income statement.

NON CURRENT					
Listed Investments, at fair value					
— shares in listed corporations		-	-	681	681
— less: Impairment Provision				(394)	
		-	-	287	681
Unlisted investments, at cost					
— shares in controlled entities	14	-	-	27,270	27,270
— less: Impairment Provision		-	-	(21,971)	(10,531)
— shares in other corporations		3,270	-	3,747	-
— units in unit trusts		110	110	110	110
— less: Impairment Provision		(110)	-	(110)	-
		3,270	110	9,046	16,849
Unlisted investments, at recoverable amount					
— shares in other corporations at cost		40	40	40	40
Less: Impairment provision		(40)	(40)	(40)	(40)
Total non-current available-for-sale financial assets	29	3,270	110	9,333	17,530

Note 14 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2009	2008
Subsidiaries of QRSciences Holdings Ltd:			
QRSciences Pty Ltd	Australia	100.00	100.00
QRSciences Security Pty Ltd	Australia	100.00	100.00
QR Sciences Co	United States of America	100.00	100.00
Diversified Opporutnities	United States of America	97.83	97.50

* Percentage of voting power is in proportion to ownership

Note 15 Property, Plant and Equipment

PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	741	790	41	41
Accumulated depreciation	(409)	(228)	(41)	(41)
	332	562	-	-
Total plant and equipment	333	562	-	-
Movements for Plant & Equipment during the year	333	562	-	-

(a) **Movements in Carrying Amounts**
Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment $000	Total $000
Consolidated Group:		
Balance at 1 July 2007	614	614
Additions	176	176
Disposals	-	-
Additions through acquisition of entity	-	-
Revaluation increments / (decrements)	-	-
Depreciation expense	(228)	(228)
Capitalised borrowing costs and depreciation	-	-
Balance at 30 June 2008	562	562
Additions	67	67
Disposals		-
Additions through acquisition of entity		-
Revaluation increments / (decrements)		-
Depreciation expense	(111)	(111)
Capitalised borrowing costs and depreciation		-
PP&E now held for sale	(185)	(185)
Write-off of assets destroyed during flood		-
Balance at 30 June 2009	333	333

Note 16 Intangible Assets

	Consolidated Group 2009 $000	2008 $000	Parent Entity 2009 $000	2008 $000
Intellectual Property				
Intellectual Property (finite useful life) at Cost	-	7,455	-	-
Less: accumulated amortisation	-	(2,429)	-	-
Less: Impairment write-down	-	(3,154)	-	-
Total intangibles	-	1,872	-	-

Consolidated Group:

	Intellectual Property $000
Year ended 30 June 2008	
Balance at the beginning of year	6,674
Additions	-
Disposals	(399)
Amortisation charge	(1,249)
Impairment losses	(3,154)
	1,872
Year ended 30 June 2009	
Balance at the beginning of year	1,872

Additions	-
Acquisitions through business combinations	
Return of patents to vendor	(1,872)
Closing value at 30 June 2009	-

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

Note 17 Other Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
CURRENT				
Prepayments	79	95	9	9
Other	55	49	5	5
	134	144	14	14
NON-CURRENT				
Borrowing Costs	189	-	189	-
	189	-	189	-

Note 18 Trade and Other Payables

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
CURRENT					
Unsecured liabilities					
Trade payables		1,815	2,241	82	77
Sundry payables and accrued expenses		585	1,046	91	68
		2,400	3,287	173	145
NON-CURRENT					
Unsecured liabilities					
BTG Patent Liability		-	5,115	-	-
		-	5,115	-	-

Note 19 Borrowings

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
CURRENT					
Unsecured liabilities					
Other loans		11	-	-	-
Lease liability	23	102	82	-	-
		113	82	-	-
Secured liabilities					
Debtor Finance Facility	19a&b	811	-	-	-
Letters of Credit		680	1,085	-	-
Other loans		-	433	-	433
		1,491	1,518	-	433
Total current borrowings		1,604	1,600	-	433
NON-CURRENT					
Unsecured liabilities					
Lease liability	23	31	69	-	-
		31	69	-	-
Secured liabilities					
Other loans	19b	1,430	867	1,430	867
		1,430	867	1,430	867
Total non-current borrowings		1,461	936	1,430	867
Total borrowings	29	3,065	2,536	1,430	1,300

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
(a) Total current and non-current secured liabilities:				
Bank overdraft	811	-	-	-
	811	-	-	-

(b) **Collateral provided**

The bank debt (nab Debtor Finance Facility and Letter of Credit Facility) is secured by against current assets owned by the Group. Covenants imposed by the bank require QRSciences Security Pty Ltd to have an inventory to working capital facility ratio of no less than 2.5 times, minimum interest cover of 2.5 times, minimum capital adequacy of 40%. Within 30 days of the close of each quarter, a copy of the management acounts are to be submitted by the entity.
The loan from Helmsman Funds Management Ltd for $1.2m attracts interest at the rate of 15% pa. Interest is calculated daily and capitalised monthly. The loan term expires on 31 March 2012 and a termination fee of $200k is payable at this time. If early repayment occurs, all interest which would otherwise would have accrued from the early repayment event to maturity would be payable.
Helmsan are the first ranking senior creditor secured over the assets and and undertakings of the business including fixed and floating charges over all group entities and second ranking only to the senior secured lend to QRSciences Security Pty Ltd

Financial assets that have been pledged as part of the total collateral for the benefit of bank debt are as follows:-

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
Cash and cash equivalents	8	1,675	1,120	1,490	852
Trade receivables	9	3,496	4,096	-	-
Listed investments	13	-	-	-	-
Total financial assets pledged		5,171	5,216	1,490	852

Note 20 Tax

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
CURRENT				
Income Tax Payable	95	215	-	-
TOTAL	95	215	-	-

	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
NON-CURRENT						
Consolidated Group	$	$	$	$	$	$
Deferred Tax Asset						
Carry forward revenue losses	-	-	-	-	-	-
Provisions & Accruals	-	299	-	-	-	299
Balance as at 30 June 2008	-	299	-	-	-	299
Carry forward revenue losses	-	179	-	-	-	179
Provisions & Accruals	299	(299)	-	-	-	-
Balance as at 30 June 2009	299	(120)	-	-	-	179

	Opening Balance	Charged to Income	Charged directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
Parent Entity	$	$	$	$	$	$
Deferred Tax Assets						
Carried forward revenue losses						-
Provisions & Accruals						-
Balance as at 30 June 2008	-	-	-	-	-	-
Deferred Tax Assets	-					-
Carried forward revenue losses	-					-
Provisions & Accruals	-					-
Balance as at 30 June 2009	-	-	-	-	-	-

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
The folowing deferred tax balances have not been recognised				
Deferred Tax Assets:				
At 30%:				
Carry forward revenue losses	3,537	4,384	920	1,793
Capital raising costs	283	356	283	356
Intangibles	-	1,066	-	-
Provisions and accruals	185	71	34	27
Borrowing Costs	17	-	17	-
Other	3	-	3	-
	4,025	5,877	1,257	2,176

At 15% (United States of Amercia):				
— Overseas losses	563	504	-	-

The tax benefits will only be obtained if:
At 15% (United States of Amercia):
(a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
(b) the company continues to comply with the conditions for deductibility imposed by law; and
(c) no changes in income tax legislation adversely affect the company in utilising the benefits.

Deferred Tax Liabilities:				
At 30%:				
Other	24	0	3	0

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not

Note 21 Provisions

	Consolidated Group		Parent Entity	
CURRENT	2009	2008	2009	2008
Other				
Opening balance at 1 July 2008	-	-	-	-
Additional provisions	7	-	-	-
Amounts used	-	-	-	-
Unused amounts reversed	-	-	-	-
Increase in the discounted amount arising because of time and the effect of any change in the discount rate	-	-	-	-
Balance at 30 June 2009	7	-	-	-

	Consolidated Group		Parent Entity	
NON CURRENT	2009	2008	2009	2008
Long-term Employee Benefits				
Opening balance at 1 July 2008	75	166	-	-
Additional provisions	-	6	27	-
Amounts used	(48)	(97)	-	-
Balance at 30 June 2009	27	75	27	-

Analysis of Total Provisions	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Current	7	-	-	-
Non-current	27	75	27	-
	34	75	27	-

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 22 Issued Capital

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
151,735,256 (2008: 86,252,374) fully paid ordinary shares	70,790	69,285	70,790	69,285
	70,790	69,285	70,790	69,285

The company has authorised share capital amounting to 151,735,256 ordinary shares.

	Consolidated Group		Parent Entity	
(a) **Ordinary Shares**	2009	2008	2009	2008
	No.	No.	No.	No.
At the beginning of reporting period	86,252,374	50,397,580	86,252,374	50,397,580
Shares issued during year				
— Aug-07		21,134,373		21,134,373
— Aug-07		4,608,500		4,608,500
— Oct-07		9,104,137		9,104,137
— Nov-07		23,060		23,060

— Apr-08		269,545		269,545
— Jun-08		162,500		162,500
— Jun-08		552,679		552,679
— Jul-08	138,400		138,400	
— Jul-08	210,084		210,084	
— Jul-08	198,059		198,059	
— Aug-08	205,917		205,917	
— Aug-08	8		8	
— Aug-08	207,612		207,612	
— Aug-08	1,862		1,862	
— Sep-08	102,302		102,302	
— Sep-08	2,370		2,370	
— Sep-08	550,000		550,000	
— Oct-08	87,796		87,796	
— Oct-08	5,691		5,691	
— Nov-08	210,084		210,084	
— Nov-08	25,436		25,436	
— Dec-08	168,067		168,067	
— Dec-08	28,777		28,777	
— Jan-09	336,134		336,134	
— May-09	12,425,864		12,425,864	
— May-09	50,578,419		50,578,419	
Shares bought back during year				
— None	-	-	-	-
At reporting date	151,735,256	86,252,374	151,735,256	86,252,374

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held
At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
	Note	$	$	$	$
Total borrowings	18, 19	5,465	10,938	1,603	1,445
Less cash and cash equivalents	8	(1,675)	(1,120)	(1,490)	(852)
Net debt		3,790	9,818	113	593
Total equity		7,989	4,621	9,876	16,951
Total capital		11,779	14,439	9,989	17,544
Gearing ratio		32%	68%	1%	3%

Note 23 Capital and Leasing Commitments

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
(a) **Finance Lease Commitments**					
Payable — minimum lease payments				-	-
— not later than 12 months		111	94	-	-
— between 12 months and 5 years		32	74	-	-
— greater than 5 years		-	-	-	-
Minimum lease payments		143	168	-	-
Less future finance charges		(10)	(17)		
Present value of minimum lease payments	19	133	151	-	-

Note 24 Contingent Liabilities and Contingent Assets

There are no material contingent liabilities at balance date or at the date of completion of these financial statements.

Note 25 Segment Reporting

	INVESTMENT HOLDINGS		CCTV Security Distribution		Economic Entity (Continuing Operations)		Economic Entity (Discontinued Operations)	
	2009	2008	2009	2008	2009	2008	2009	2008
	$000	$000	$000	$000	$000	$000	$000	$000
Primary Reporting — Business Segments								
REVENUE								
External Sales	-	-	17,781	16,730	17,781	16,730	403	436
Other revenue	14	278	227	1,231	241	1,509	1,092	1,696
Gain on BTG	-	-	-	-	-	-	5,957	-
Total sales revenue	14	278	18,008	17,961	18,022	18,239	7,452	2,132
Unallocated revenue	-	-	-	-	-	-	-	-
Total revenue	14	278	18,008	17,961	18,022	18,239	7,452	2,132

RESULT								
Segment result	(1,679)	(1,434)	(209)	1,191	(1,887)	(243)	2,677	(33,781)
Profit before income	(1,679)	(1,434)	(209)	1,191	(1,887)	(243)	2,677	(33,781)
Income tax benefit/(expense)	-	-	(116)	84	(116)	84	-	-
Profit after income tax	(1,679)	(1,434)	(325)	1,275	(2,003)	(159)	2,677	(33,781)
ASSETS								
Segment assets	5,493	7,104	8,640	8,745	14,134	15,849	162	-
Unallocated assets	-	-	-	-	(367)	-	-	-
Total assets	5,493	7,104	8,640	8,745	13,767	15,849	162	-
LIABILITIES								
Segment liabilities	1,629	6,873	3,966	4,355	5,594	11,228	345	-
Unallocated liabilities								
Total liabilities	1,629	6,873	3,966	4,355	5,594	11,228	345	-
OTHER								
Investments accounted for using the equity method	-	2,630	-	-	-	2,314	-	-
Acquisitions of non-current segment assets	-	11	73	165	73	176	-	-
Depreciation and amortisation of segment assets	-	1,343	111	134	111	1,477	56	94
Other non-cash segment expenses	-	-	-	-	-	-	-	-

Secondary Reporting — Geographical Segments	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2009	2008	2009	2008	2009	2008
	$000	$000	$000	$000	$000	$000
Geographical location:						
Australia	18,022	16,730	13,896	12,102	67	176
United States of America	-	-	31	3,747	-	-
	18,022	16,730	13,927	15,849	67	176

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

Business segments

The consolidated group has the following two continuing business segments:

- The economic entity operates as an investment development capitalist in the geographical area primarily of Melbourne, Australia with an offices in Perth and San Diego, California, USA.
  In February 2007, the chief entity completed an acquisition of QRSciences Security Pty Ltd.
- The wholesale division (QRSciences Security Pty Ltd) which comprises Q Video Systems, Q Alarm Supplies and Q Detection Systems distributes range of surveilance and detection products throughout Victoria, New South Wales, Queensland and Western Australia.

Geographical segments

The consolidated group's business segments are located in Australia, with the an investment interest in the USA.

Note 26 Cash Flow Information

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
(a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
Profit after income tax	673	(33,940)	(8,580)	(43,266)

Cash flows excluded from profit attributable to operating activities				
Gain on BTG Liability Reversed	(5,957)	-	-	-
Non-cash flows in profit				
Depreciation & Amortisation	167	1,477	-	-
Non-Cash Expenses	1,774	31,380	7,922	42,148
Other Revenue	-	(399)	-	-
Net (gain)/loss on disposal of investments	3	(233)	3	(233)
Share based paytments to employees	-	83	-	83
Share based payments - other	72	109	-	109
FX translation movements	1,305	(1,149)	-	-
(Increase)/decrease in trade and term receivables	(33)	(847)	(53)	(14)
(Increase)/decrease in inventories	31	(1,468)	-	-
Increase/(decrease) in trade payables and accruals	(300)	108	25	(79)
Increase/(decrease) in deferred taxes payable	120	(299)	-	-
Increase/(decrease) in provisions	(45)	(19)	27	(51)
Cash flow from operations	(2,190)	(5,197)	(656)	(1,303)

Note 27 Events After the Balance Sheet Date

On 5 September 2009 QRSciences Pty Ltd advertised for expressions of interest to acquire the business of QRScience Pty Ltd, the R&D and technology company that is based in Perth. The Company expects to either sell the business or restructure the business to ensure no further detoriation of the Companies cash holdings in operating this business unit. The Company has also appointed a non exclusive advisor located in California to asisst in the sale of the business to interested parties. Except for the this proposed transaction, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Note 28 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) **Other Transactions of Directors and Director Related Entities**
There were no other transactions with Directors and Director Related Entities

(b) **Controlled Entities**
Details of interests in controlled entities are set out in Note 14. Loans were made to controlled entities under nomral commercial terms and conditions. These loans have been elimiated for consolidation purposes.

Note 29 Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to subsidiaries, bank and other borrowings.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:-

	Note	**Consolidated Group**		**Parent Entity**	
		2009	**2008**	**2009**	**2008**
Financial Assets		**$000**	**$000**	**$000**	**$000**
Cash and cash equivalents	8	1,675	1,120	1,490	852
Financial assets at fair value through profit or loss					
— Held for trading	13	49	-	49	-
Loans and receivables	9f	3,496	4,957	430	-
Available-for-sale financial assets					
— Equity investments	13b	3,270	110	9,333	17,530
		8,490	6,187	11,302	18,382
Financial Liabilities					
Financial liabilities at amortised cost					
— Trade and other payables	18	2,400	8,402	173	145
— Borrowings	19	3,065	2,536	1,430	1,300
		5,465	10,938	1,603	1,445

Financial Risk Management Policies

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the group. The RAC has, in turn, established a dedicated Financial Risk Management Committee (FRMC) to undertake such responsibility. The FRMC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk. The meeting minutes of the FRMC are reviewed by the Board.
The FRMC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management
The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and commodity and equity price risk.

a. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group does not use derivatives to mitigate these exposures.

The net effective variable interest rate borrowings (ie. unhedged debt) exposes the group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities :-

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
Floating rate instruments		$000	$000	$000	$000
Bank overdrafts (nab Debtor Finance Facility)	19	811	404	-	-
Credit Cards	19	11	-	-	-
		822	404	-	-

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:-

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liability.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore defer from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will rolled forward.

Financial liability maturity analysis

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated Group	$000	$000	$000	$000	$000	$000	$000	$000
Financial liabilities due for payment								
Debtor Finance Facility and loans	822	-	-	-	-	-	822	-
Letters of Credit	680	1,086	-	-	-	-	680	1,086
Trade and other payables (excl. est. annual leave)	2,179	2,701	-	-	-	-	2,179	2,701
Amounts payable related parties	-	-	-	-	-	-	-	-
Financial lease	102	82	31	69	-	-	133	151
Other Loans	-	433	1,430	867	-	-	1,430	1,300
Total contractual outflows	3,783	4,302	1,461	936	-	-	5,244	5,238
Less bank overdrafts	(822)	-	-	-	-	-	(822)	-
Total expected outflows	2,961	4,302	1,461	936	-	-	4,422	5,238

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated Group	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets - cash flows realisable								
Cash and cash equivalents	1,675	1,120	-	-	-	-	1,675	1,120
Trade, term and loans receivables	3,496	4,096	-	-	-	-	3,496	4,096
Held-for-trading investments	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	861	-	-	-	-	-	861
Other investments	49	110	3,270	2,314	-	-	3,319	2,424
Investments (Controlled Entities)	-	-	287	681	-	-	287	681
Total anticipated inflows	5,220	6,187	3,557	2,995	-	-	8,777	9,182
Net (outflow) / inflow on financial instruments	2,259	1,885	2,096	2,059	-	-	4,355	3,944

Financial liability maturity analysis

	Within 1 Year	1 to 5 years	Over 5 years	Total contractual cash flow

Parent Entity	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
Financial liabilities due for payment								
Bank overdrafts and loans	-	-	-	-	-	-	-	-
Trade and other payables (excl. est. annual leave)	109	145	-	-	-	-	109	145
Convertible Loans	-	433	1,430	867	-	-	1,430	1,300
Total contractual outflows	109	578	1,430	867	-	-	1,539	1,445
Less bank overdrafts	-	-	-	-	-	-	-	-
Total expected	109	578	1,430	867	-	-	1,539	1,445

	Within 1 Year		**1 to 5 years**		**Over 5 years**		**Total contractual cash flow**	
Parent Entity	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
Financial Assets - cash flows realisable								
Cash and cash equivalents	1,490	852	-	-	-	-	1,490	852
Trade, term and loans receivables	56	-	-	-	-	-	56	-
Held-to-maturity investments	-	-	-	-	-	-	-	-
Other investments	49	110	3,747	-	-	-	3,796	110
Total anticipated inflows	1,595	962	3,747	-	-	-	5,342	962
Net (outflow) / inflow on financial instruments	1,486	384	2,317	(867)	-	-	3,803	(483)

c. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

It is Group policy that hedging, as a percentage of net foreign exchange rate exposure, be maintained within FRMC established limits by management and reported monthly to the board for monitoring. There are further controls around the cumulative amount of hedging that can be undertaken within any 30 day period to avoid pricing concentration risk.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

	Consolidated Group		**Parent Entity**	
	2009 $000	**2008 $000**	**2009 $000**	**2008 $000**
ASSETS				
Cash	7	63	-	-
Convertible Notes (Spectrum)	-	861	-	-
Other Financial Assets (Spectrum)	3,270	-	3,747	-
	3,277	924	3,747	-
LIABILITIES				
Letters of Credit	680	995	-	-
Trade Payables	672	1,051	-	-
	1,352	2,046	-	-
Net Balance sheet exposure	1,925	(1,122)	3,747	-

Forward exchange contracts

The Group has open forward exchange contracts at balance date relating to highly probable forecast transactions and recognised financial assets and financial liabilities. These contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. The FRMC has a policy of requiring that forward exchange contracts be entered into where future commitments are entered into requiring settlement at a time in excess of 2 months. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimized.

The following table summarises the notional amounts of the Group's commitments in relation to forward exchange contracts. The notional amounts do not represent amounts exchanged by the transaction counterparties and are therefore not a measure of the exposure of the Group through the use of these contracts. The Parent entity does not have any contracts in place.

	Notional Amounts		**Average Exchange Rate**	
Consolidated Group	2009 $000	2008 $000	2009 $	2008 $
Buy USD / Sell AUD				
Settlement - less than 6 mths	302	-	0.801500	na
- 6 mths to 1 year	-	-	na	na
Buy AUD / Sell USD				
Settlement - less than 6 mths	-	-	na	na

- 6 mths to 1 year	-	-	na	na

Forward exchange contracts are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as they are included in the costs of hedged inventory purchases or other asset acquisitions.

d. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilization of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 30 to 60 days from the date of invoice.

Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, then risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet. Credit risk also arises through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographic basis, the Group has significant credit risk exposures in Australia.Further details with respect to credit risk of Trade and Other Receivables is provided in Note 9.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 9.

Credit risk related to balances with banks and other financial institutions is managed by the FRMC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on S&P counterparty credit ratings.

	Note	Consolidated Group		Parent Entity	
		2009 $000	2008 $000	2009 $000	2008 $000
Cash and cash equivalents					
- AA Rated (nab Savings Maximiser Account)		1,479	793	1,479	793
- A Rated		-	-	-	-
	8	1,479	793	1,479	793

For details of collateral held as security, refer to Note 9

e. Price risk

The consolidated entity is not subject to commoidity price risk.

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

	2009		2008	
Consolidated Group	Net Carrying Value $000	Net Fair Value $000	Net Carrying Value $000	Net Fair Value $000
Financial assets				
Cash and cash equivalents	1,675	1,675	1,120	1,120
Trade and other receivables	3,496	3,496	4,096	4,096
Term receivables	-	-		-
Loans and advances - related parties	-	-	861	861
Investments - available for sale	3,270	3,270	110	110
Total financial assets	8,441	8,441	6,187	6,187
Financial liabilities				
Trade and other payables	2,400	2,400	8,402	8,402
Other Borrowings	1,441	1,441	1,300	1,300
Lease liability	133	133	151	151
Letters of Credit	680	680	1,085	1,085
nab Debtor Finance Facility	811	811	-	-

Total financial liabilities	5,465	5,465	10,938	10,938

	2009		**2008**	
Parent Entity	Net Carrying Value $000	Net Fair Value $000	Net Carrying Value $000	Net Fair Value $000
Financial assets				
Cash and cash equivalents	1,490	1,490	852	852
Trade and other receivables	430	430	-	-
Loans and advances - related parties	-	-	-	-
Investments - available for sale	9,333	9,333	17,530	17,530
Investments - held-for-trading	49	49	-	-
Total financial assets	11,302	11,302	18,382	18,382
Financial liabilities				
Trade and other payables	173	173	145	145
Other Borrowings	1,430	1,430	1,300	1,300
Total financial liabilities	1,603	1,603	1,445	1,445

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and commodity and equity prices. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated Group		**Parent Entity**	
Year ended 30 June 2009	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**
+/- 35% in interest rates	(3)	(3)	16	16
+/- 20% in $A/$US	328	328	603	603

	Consolidated Group		**Parent Entity**	
Year ended 30 June 2008	**Profit $000**	**Equity $000**	**Profit $000**	**Equity $000**
+/- 35% in interest rates	4	4	19	19
+/- 20% in $A/$US	(216)	(216)	-	-

Note 30 Company Details

The registered office of the company is:
QRSciences Holdings Ltd
5/435 Williamstown Road
PORT MELBOURNE VIC 3207

The principal places of business are:

QRSciences Holdings Ltd
5/435 Williamstown Road
PORT MELBOURNE VIC 3207

QRSiences Security Pty Ltd
5/435 Williamstown Road
PORT MELBOURNE VIC

QRSciences Pty Ltd
8-10 Hamilton Street
CANNINGTON WA 6017

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 11 to 36, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards; and
   (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view;

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director

Richard Stokes

Dated this	30th	day of	September	2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QRSCIENCES HOLDINGS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of QRSciences Holdings Limited (the company) and QRSciences Holdings Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal 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 (IFRS) 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. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of QRSciences Holdings Limited on 30th September 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

During the financial year, inventory purchased from overseas suppliers in United States currency ("USD") by QRSciences Security Pty Ltd ("Security"), a wholly owned subsidiary of the Company, was recognised and valued using a preset notional USD : Australian ("AUD") exchange rate (or "internal rate"). Management of Security has advised that this methodology was used as an internal hedge against USD fluctuations as the business is operated on a conservative basis.

In contrast to the above methodology, Australian Accounting Standard AASB 121 The Effects of Changes in Foreign Exchange Rates (paragraph 21) requires such transactions to be recognized at the spot rate when inventory is purchased. AASB 121.22 provides further guidance on the appropriateness of using a weekly or monthly average rate rather than a daily rate. For practical reasons, average rates can be used to approximate the actual rate. However, when exchange rates fluctuate significantly, the use of an average rate is considered inappropriate.

In addition, the methodology adopted by Security did not accord with the Company's accounting policy detailed in Note 1(i) to the financial statements. AASB 127 Consolidation and Separate Financial Statements (paragraph 24) also requires consolidated financial statements to be prepared using uniform accounting policies for like transactions.

The difference between the internal rate and actual spot rate throughout the financial year may have resulted in the cost of goods sold, gross profit margin and the movements in foreign exchange being potentially materially misstated in the Income Statement. These three categories of the Income Statement are the only categories which may have been impacted by the accounting treatment using the internal rate.

It is not possible or considered practicable to quantify the impact on cost of goods sold, gross profit margin, and movements in foreign exchange within the Income Statement due to the large number of transactions throughout the financial year.

Despite the inability to quantify the impact on the above, it is acknowledged that there is ultimately no impact on Security's or the consolidated entity's revenues or net profit as reported in the consolidated Income Statement or financial position as reflected in the consolidated Balance Sheet.

Qualified Auditor's Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial report of QRSciences Holdings Limited and QRSciences Holdings Limited and Controlled entities 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 30 June 2009 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

(iii) complying 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 30 June 2009. 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 QRSciences Holdings Limited for the year ended 30 June 2009 complies with Section 300A of the Corporations Act 2001.

Moore Stephens

Suan-Lee Tan
Partner

Moore Stephens
Chartered Accountants

Signed at Perth this 30th day of September 2009.

QRSCIENCES HOLDINGS LTD ABN: 26 009 259 876 AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. Shareholding

a. Distribution of Shareholders

Category (size of holding)	Number of Shareholders Ordinary
1 – 1,000	195
1,001 – 5,000	308
5,001 – 10,000	158
10,001 – 100,000	516
100,001 – and over	156
	1,333

b. The number of shareholdings held in less than marketable parcels is 627.

c. The names of the substantial shareholders listed in the holding company's register as at 16 September 2009 are:

Shareholder	Number Ordinary
BOND STREET CUSTODIANS LIMITED <HELMSMAN CAP FUND TST IIA>	35,079,516
CITICORP NOMINEES PTY LIMITED	17,209,861
MR KEVIN RUSSETH	7,896,105

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

- These shares have no voting rights.

e. 20 Largest Shareholders — Ordinary Shares (as at 25 September 2009)

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. BOND STREET CUSTODIANS LIMITED <HELMSMAN CAP FUND TST IIA>	35,079,516	23.12
2. CITICORP NOMINEES PTY LIMITED	17,209,861	11.34
3. QRSCIENCES HOLDINGS LIMITED <UNMARKETABLE PARCEL SALE A/C>	5,399,512	3.56
4. HSBC CUSTODY NOMINEES (AUSTRALIA)	3,994,863	2.63
5. MR KEVIN RUSSETH	3,322,362	2.19
6. MR KEVIN LEE RUSSETH	3,094,566	2.04
7. MR ROBERT GEORGE HALVERSON + MRS MARGARET JOAN HALVERSON <HALVERSON	2,745,276	1.81
8. MR RICHARD JAMES STOKES + MRS LISA MAREE STOKES <STOKES SUPER FUND A/C>	2,528,352	1.67
9. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,192,384	1.44
10. CHERRYOAK INVESTMENTS PTY LTD <C & N FAMILY A/C>	2,067,758	1.36
11. MR HOWARD WHITESMITH	2,000,000	1.32
12. QRSCIENCES HOLDINGS LTD <EMPLOYEE INCENTIVE PLAN A/C>	1,970,300	1.3
13. BTG INTERNATIONAL LTD	1,733,557	1.14
14. MR CHRISTOPHER COLIN FRYAR + MR ADON JOHN NARDELLI <C FRYAR & A NARDELLI SF	1,500,000	0.99
15. MR HENRY MICHAEL NOONAN <NOONAN SUPER FUND A/C>	1,337,446	0.88
16. MR BRADLEY WILLIAM SMITH	1,311,727	0.86
17. MR KEVIN LEE RUSSETH	1,123,877	0.74

18. CAMCOURT INVESTMENTS PTY LTD <CAMCOURT INVESTMENTS A/C>	1,000,000	0.66
19. MR ANTHONY GRANT MELVILLE + MRS ELAINE	1,000,000	0.66
20. SGI PTY LTD <SGI UNIT A/C>	1,000,000	0.66
	91,611,357	60.37

20 Largest Option Holders – 45 cent options

The 20 largest holders of the Company's 45 cent options hold 83.51% of the Company's quoted options. As at 30 June 2009, the 20 largest holders of the Company's 45 cent options are:

	Option Holder	Number of 45 cent Options Held	Percentage Held in Issued Ordinary Capital (%)
1	Vision Opportunity Master	25,154,200	58.45%
2	Citicorp Nominees Pty Limited	1,952,516	4.54%
3	Hsbc Custody Nominees	1,666,667	3.87%
4	Goffacan Pty Ltd	792,021	1.84%
5	Mr Peter Kikis	772,206	1.79%
6	Anz Nominees Limited	667,206	1.55%
7	Mr Peter T Kikis	583,010	1.35%
8	Mr Thomas Kikis	583,010	1.35%
9	Mr John Oakley Clinton	550,000	1.28%
10	Mr Giovanni Spagnolo	473,283	1.10%
11	Planmoor Investments Pty Ltd	418,840	0.97%
12	Hyflash Holdings Pty Ltd	386,667	0.90%
13	Mr Anthony Schoer	310,820	0.72%
14	Dolit Pty Limited	250,000	0.58%
15	Mr Sami Ghali Tadros &	250,000	0.58%
16	Williams Securities Pty	250,000	0.58%
17	Goffacan Pty Ltd	244,409	0.57%
18	Intercorp Pty Ltd	233.334	0.54%
19	Mrs Jane Yuet Kiu Or Poon	200,810	0.47%
20	Mr Anthony James Ellis	200,000	0.46%
	Total	35,705,898	83.49%

2. The name of the company secretary is Jamie Taylor

3. The address of the principal registered office in Australia is 5/435 Williamstown Road, Port Melbourne VIC 3207. Telephone +61 3 9681 9854.

4. Registers of securities are held at the following addresses
Computershare Investor Services Pty Ltd
Level 2 , 45 St Georges Terrace
Perth WA 6000

5. **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

6. **Unquoted Securities**
Options over Unissued Shares
The following are unquoted securities in the Company:

		No. Holders
50,500	$1.00 Unlisted Options to acquire fully paid ordinary shares exp 30/09/2010	5
450,000	$0150 Unlisted Options to acquire fully paid ordinary shares exp 22/04/2010	9
450,000	$0.20 Unlisted Options to acquire fully paid ordinary shares exp 22/04/2011	9
906,859	$0.30 Unlisted Options to acquire fully paid ordinary shares exp 19/10/2012	5
1,114,384	$0.30 Unlisted Options to acquire fully paid ordinary shares exp 10/05/2012	5
3,801,547	$0.587 Unlisted Options to acquire fully paid ordinary shares exp 10/05/2014	2
3,801,547	$0.797 Unlisted Options to acquire fully paid ordinary shares exp 10/05/2014	2
7,500,000	$0.237 Unlisted Options to acquire fully paid ordinary shares exp 10/05/2014	2

7. Corporate Governance Statement

Board of Directors and Corporate Governance

The Board of QRSciences Holdings Limited is responsible for ensuring the existence of an effective corporate governance environment to safeguard the interests of the Company and its shareholders. This statement outlines the main corporate governance practices that were in place during the year ended 30 June 2009.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2009.

Composition of the Board

The Board of Directors consists of two Executive Directors and two Non-Executive Directors, one of the Non-Executive Directors also acts as the Non-Executive Chairman. The Board meets regularly and is responsible for providing strategic direction, identifying significant business risks, approving major investment proposals and acquisitions, establishing goals and monitoring the achievement of these goals.

Name	Role	Non-Executive	Independent
Mr Rick Stokes	Chief Executive Officer	No	No
Mr Kevin Russeth	Director	No	No
Mr Douglas Potter	Director	No	No
Mr Robert Halverson	Non-Executive Director	Yes	Yes

The skills, experience and expertise relevant to the position of director, and the term office held by each Director at the date of the annual report, are included in the Director's Report.