

Annual Report

 COMPUMEDICS®



- > Sleep Diagnostics & Treatment
- > Neuro Diagnostics
- > Brain Research
- > Ultrasonic Blood Flow Monitoring

20
14

FINANCIAL SUMMARY

ALL FIGURES IN A\$M UNLESS OTHERWISE STATED

	2014	2013
Revenue for continuing operations	30.8	27.2
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	3.0	0.3
Earnings before interest and income tax (EBIT)	1.6	(0.9)
Net operating profit after tax (NPAT)	0.9	(1.5)
Research and development costs as a percentage of operating revenue	16.7	16.1
Total assets	19.5	19.1
Shareholders funds	9.2	8.4
Net tangible assets per share (cents)	0.4	0.3
Weighted average number of shares (million)	167	167
Earnings per share (basic) (cents)	0.5	(1.0)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents)	1.0	(1.0)

UNDERSTANDING THE NUMBERS

Revenues: Revenue was \$30.8m compared to \$27.2m over the previous corresponding period.

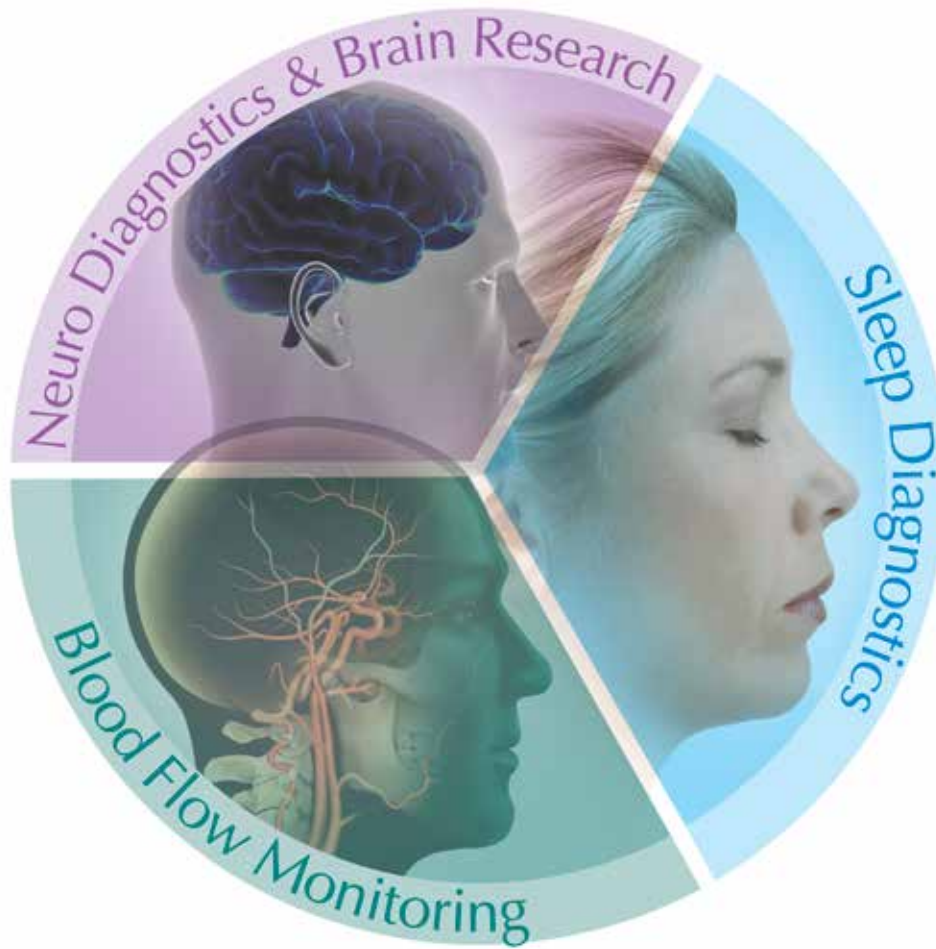
EBITDA: To \$3.0m in the current financial year from \$0.3m in the previous financial year.

PAT: The business made \$0.9m this year compared to \$1.5m lost last year.

- 05 Executive Chairman and CEO's Review
- 09 The Business of Compumedics
- 11 Clients of Compumedics
- 13 Sleep Diagnostics
- 15 Neuro Diagnostics
- 17 Ultrasonic Blood Flow Monitoring
- 19 NeuroMedical Supplies
- 21 Board of Directors
- 22 Senior Management Team

Compumedics Limited
ABN 95 006 854 897

Annual General Meeting
Thursday, 30th October 2014
at 10.30am
To be held at: Compumedics Limited
30-40 Flockhart Street Abbotsford
Victoria 3067



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

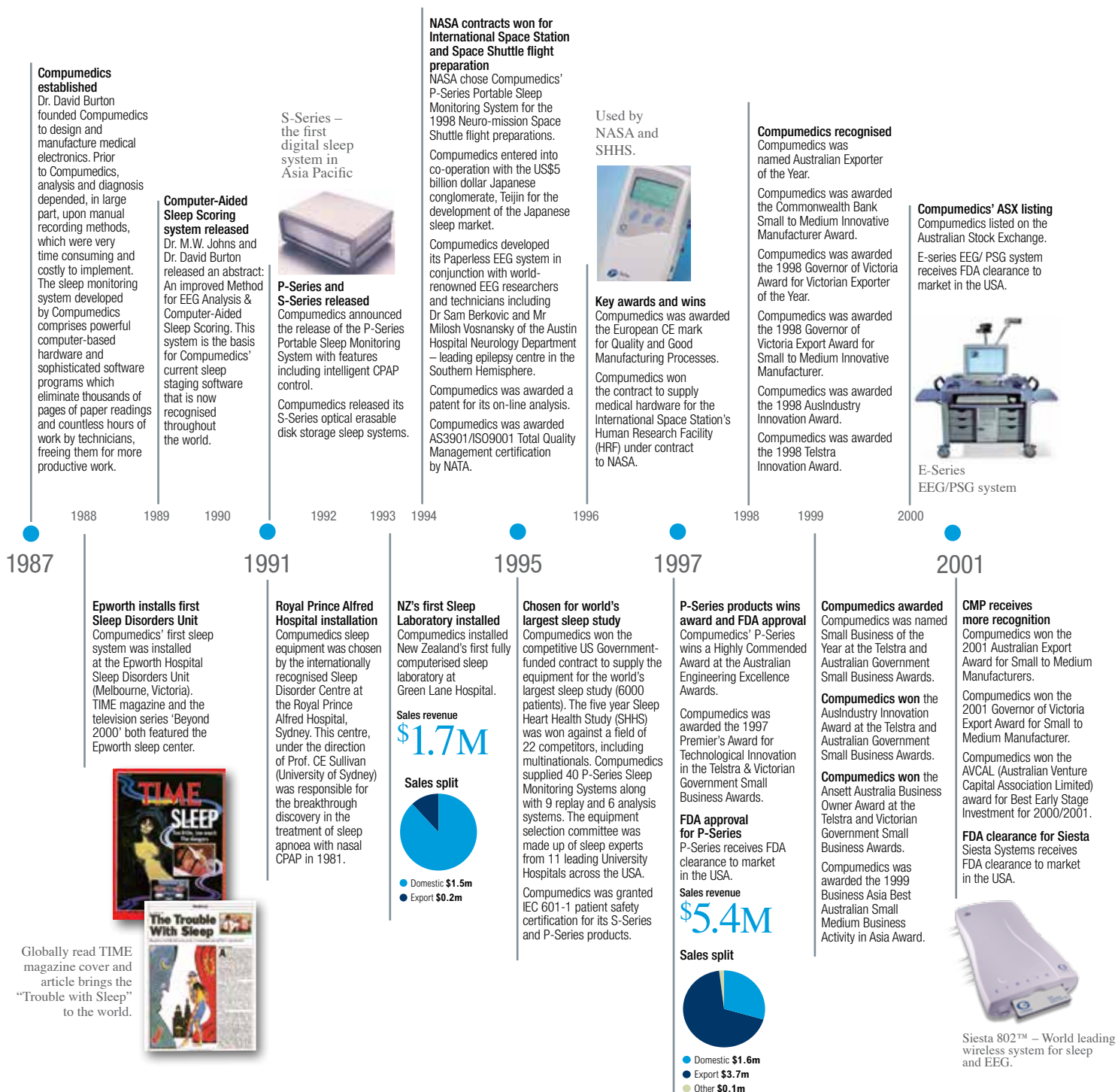
Since 1987, Compumedics' strategy has focused on developing its core competency – Sleep Diagnostics – which has enabled the company to become one of the leaders in this growing international healthcare market. Today Compumedics has evolved into one of the world's leading suppliers of medical technology for sleep and neuro diagnostics (including brain research) and ultrasonic blood flow monitoring.

Compumedics' technologies and products are distributed to clients around the globe, helping millions of people who suffer from debilitating sleep, neurological and other healthcare problems. Each of these markets is multi-billion dollar in scope, at an early phase of evolution, with high growth expectations and Compumedics technology is uniquely positioned for imminent growth in each of these markets.

A focused strategy in action

For over 25 years, Compumedics' focus in Sleep and associated medical disorders has established a solid platform for growth.

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





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

Somté receives European clearance
Somté receives CE mark for European Market

Compumedics' completes first acquisition – Neuroscan.

Sales revenue
\$20.2M

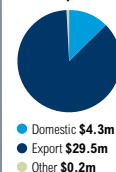
Compumedics acquires German based DWL Elektronische Systeme GmbH

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

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

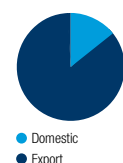
Sales revenue
\$34.0M

Sales split



Sleep Products received regulatory clearance in Taiwan

Sales revenue Regional Split



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

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



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

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

US Office relocated to Charlotte, NC.

\$200m of revenue achieved since listing.

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

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

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

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



CURRY 6 - Multi-modal Neuroimaging software



Somnilink SPAP®

Somnilink SPAP receives CE and TGA clearance.

Grael receives FDA clearance.
Compumedics wins major Mannheim University Medical Centre contract in Germany.



Mannheim University Medical Centre Sleep Laboratory.

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

The updated Somté PSG is released.



Updated Somté PSG™ - Full PSG absolutely anywhere.



Compumedics celebrates its 25 Year Silver Jubilee Anniversary.

Neuvo LTM, world's first 512 channel wall system is released to market - the Ultimate Long-term Monitoring System.

Compumedics Achieves a World's First In Brain Monitoring -

The Yale New Haven Medical Center has produced brain EEG scans using the new Compumedics® NEUVO®.

This breakthrough represents a major enhancement in diagnostic capabilities for evaluating patients requiring surgical correction for epilepsy.

Grael-HD EEG - High-Definition EEG is released to market.



Grael-HD EEG

eHealth Business focus in Asia.

New contract signed with Bestmed (China) with potential revenue of US\$5 million over the next three years growing to US\$13.2 million within five years.

Company has now secured total contracts for its eHealth platform with potential incremental revenue of US\$9.1 million over the next three years.

New products released -



Profusion Sleep4 - World class PSG diagnostic software.



Profusion EEG5 - World class EEG diagnostic software.

2005

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

Compumedics awarded the Frost and Sullivan Award for Market Expansion Strategy

Sales revenue
\$32.1M



Somté® – Explore Sleep ... Beat by Beat

DWL division established for blood-flow Doppler technology.

Sales revenue
\$38.2M



Compumedics awarded the 2006 Frost & Sullivan Technology Leadership Award.

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

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

Profusion PSG3 is released - the next generation world class sleep diagnostics software.

Somté PSG & Profusion PSG3 receive CE mark



Somté PSG™ - Full PSG absolutely anywhere.

2010

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

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



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

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

Compumedics introduces direct selling in Germany.

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

Somnilink SPAP debuts in Australia.
Compumedics DWL wins Innovation Grant.

Record profits
\$2.7M

2012



CURRY SCAN 7 Neuroimaging Suite is released - Compumedics Neuroscan releases it's combined acquisition and signal processing software.

Compumedics introduces direct selling in France.

Compumedics inaugural attendance at the China Medical Equipment Fair, Shenzhen.

Milestone EEG contract win to equip the new & internationally acclaimed Royal Children's Hospital Melbourne with Compumedics Neuvo LTM.

2014

Beijing Bestmed, Compumedics' China-based distributor invests \$0.5, becoming a top 10 shareholder - this injection of funds contributes to Compumedics further growth in the China region.

Secured significant US LTEM site representing a combined US \$1m of new business - further strengthening the future growth prospects in the Neurology market.



Neuvo LTM 512 Channel EEG.

Chairman's address



Dear Compumedics investors,

On behalf of the Board, management and Compumedics team I am pleased to present to you the results contained within the 2014 Annual Report.

A number of key milestones and initiatives were successfully achieved during the year, including the ongoing strengthening of our global sales force, continued structural reforms as we transition our manufacturing operations to counter the persistent impact of the high Australian dollar, and advancement in Medical Innovation commercialization, including SPAP® and eHealth.

FINANCE

I am pleased to announce that the Company returned to profitability in the first half of the financial year and grew further in the second half-year to deliver a full year profit for the year ended 30 June 2014 of \$0.9m compared to a loss of \$1.5m in the prior year. This was a direct result of increased product shipments during the year, following the refinancing of debt finalised in June 2013.

Despite the increased shipments, the Company was holding unfilled sales-orders of approximately \$6.0m, reflecting continued strong sales order flow into the business. It expects to continue increased shipments of filled sales orders in the first half of FY2015. As a consequence, the Company will continue to improve profitability in the 2015 financial year.

The Company achievements during the course of the 2014 financial year were:

- *EBITDA was a \$3.0m profit compared to \$0.3m in the prior year, as a result of the increased shipments, on-going efficiency gains in manufacturing, and improvements in the exchange rate;*
- *Shipped and invoiced sales grew almost 14% to \$30.8m compared to \$27.2m for the previous year;*
- *Cash on hand and debt levels were stable during the period at \$1.1m and \$2.0m, respectively, compared to \$1.2m and \$2.3m in FY2013;*
- *The Company had unfilled sales orders of \$6.0m on-hand at 30 June 2014;*
- *The US, Asia (including China), Middle East regions and the DWL business all posted growth in shipped and invoiced sales, with growth of 19%, 8%, 4% and 26%, respectively. Australia and Europe sales were comparable with prior years.*

OPERATIONS

Compumedics has maintained its research and development (R&D) investment at 16% of revenue, or more than twice the industry standard. Consequently, the Company has retained its technological leadership, with a strong pipeline of new and exciting upcoming product releases and upgrades.

Additionally, in order to enable the Company to operate profitably with a strong Australian dollar, the Company has invested in a number of structural reforms designed to restore and then ensure continued growth in profits. These structural reforms include retooling and relocation of select manufacturing functions to more competitive manufacturing regions, such as Taiwan and other parts of Asia. During the current financial year several significant manufacturing processes were transferred to Asia. The Company will now utilize this knowledge and experience to commence relocation to Asia of its higher volume selling devices. The Company is well advanced in designing a range of more competitive neurology and sleep diagnostic products, incorporating premium performance but enabling the Company to access a larger portion of the global market through reduced cost of manufacture. This new product range will be released during FY2015.

While these structural transforms have demanded significant investment in the short term, in terms of personnel, engineering and components, they will result in substantial savings and elevated shareholder returns in the medium term through improved margins, the first positive outcomes having been demonstrated with this year's financial results.

STRENGTHENED SALES AND MARKETING

As previously noted, Compumedics has entered the Long-Term EEG-Monitoring (LTEM) market, a new and incremental market, with the launch of its innovative LTEM product, Neuvo®. This takes Compumedics into a pre-existing, but new market for the Company, which has estimated current annual sales of about US \$200m in the US and approximately US \$400m globally. Compumedics is well-positioned to expand its share of this market over the next few years. Compumedics has achieved approximately US \$4m in annual incremental revenues from this market over the last two years.

Epilepsy diagnosis and monitoring is a key target for the Neuvo® product. The US-based Epilepsy Foundation estimates that more than 3 million people in the US are affected by epilepsy with 200,000 new cases each year. Compumedics has made significant investments in product development, targeting the neuro-diagnostics market to leverage its expertise in high-end amplifier design and physiologic signal processing. The combination of the Neuvo® LTEM system and the CURRY® neuroimaging analysis software suite, some of which is covered by patents, makes it easier for epileptologists and neurosurgeons to identify which specific regions in the

brain are most likely to be the cause of severe seizure activity in an afflicted patient. As, such the LTEM market provides another solid opportunity for growth for the Company over the foreseeable future.

In the Company's core sleep diagnostic business, Compumedics has the most sophisticated and advanced range of portable sleep-monitoring systems of any of the companies competing in these markets. The Company continues to be recognised as a leading sleep diagnostic company world-wide and as such the global sleep diagnostic market continues to offer opportunities for growth, particularly in Asia Pacific and especially in growth regions where Compumedics has strong distribution partners, such as China.

In addition, China represents a unique emerging market opportunity for Compumedics' complete range of diagnostic and monitoring systems, particularly given the close proximity and strong trade relations with Australia, coupled with Compumedics' time-earned reputation and establishment of premier reference centres throughout China. As China rapidly builds and expands its basic health infrastructure, mainly due to a continuously growing middle class, the focus will inevitably turn to new areas of health management, including sleep, neural disorders and brain blood-flow ultrasonography. This will provide a measurable upside for Compumedics as it has firmly established its market position over a long period. Compumedics is participating already in this upside as revealed in recent business wins in China for its ultrasonography (DWL) products.

The Company will continue its development of the sleep-treatment market and continues to ramp up its commercialization opportunities here in Australia and abroad.

BREAKOUT MEDICAL INNOVATIONS

Compumedics Medical Innovation (CMI) division has continued to develop a number of breakout technology platforms. Each of these CMI platforms incorporates a folio of patents, complements Compumedics' core business, presents unique and significant product differentiation, and has been independently validated, as outlined in the subsequent sections.

SPAP® and Biomask Sleep Treatment: Sleep disorders, particularly obstructive sleep apnoea or cessation of breathing, are a major health issue world-wide. About 20% of the adult population have sleep-disordered breathing. Co-morbidities of SDB are linked to some of the most significant health problems including stroke, hypertension, congestive heart failure, diabetes and obesity. Moreover, it has been found that even amongst CPAP treated patients, up to 12% of this treated group still suffer residual excessive sleepiness (RES). Hence, the need for improved SDB systems

has never been greater. The worldwide apnoea devices market in 2011 was valued at US \$7.96 billion, with expectations that it will reach US \$19.72 billion by the year 2017 (marketsandmarkets 2011). While over 100 million people may suffer from sleep apnoea 80% of these people remain undiagnosed (marketsandmarkets 2011). Non-Invasive Ventilator (NIV) market continues to surge as demand for home-care ventilators hit an all-time high, driven by a rising and aging population and growing rates of chronic obstructive pulmonary disease (COPD). In terms of technological trends, intelligent PAP devices such as adaptive servo ventilation (ASV), Synchronized Intermittent Mandatory Ventilation (SIMV) and Proportional Assist Ventilation (PAV), Neural Control of Ventilatory Assist (NAVA), are becoming more popular, and patterns of care are tending to shift towards the home versus the traditional clinic setting (marketstrategy 2010).

The Opportunity: Clinical and scientific assessment studies have shown that *"Both as treated and intention to treat showed that apnoea hypopnoea index (AHI) and wake after sleep onset (WASO) were significantly reduced and sleep-efficiency (SE) significantly increased on the SPAP as compared to the S8."* (Burton et al. 2012; ASA/ASM conference; Darwin Australia).

Whilst poorer measures of heart rate variability (HRV) have been demonstrated amongst patients treated with auto-titrating positive airway pressure (APAP) compared to fixed-CPAP, a recently published SPAP® clinical assessment study showed that, *"HRV measures suggest improved parasympathetic activity during treatment with the Compumedics SPAP® device when compared with the ResMed S8 device."* (Turton et al. 2014; ASA/ASM conference; Perth Australia).

The Compumedics SPAP® technology is the culmination of an extensive R&D program underpinned by 25 years of Compumedics' experience in developing world renowned sleep, arousal, respiratory, artifact and neurological analysis software. The SPAP® system is supported by a folio of worldwide patents. The encouraging sleep and cardiac outcomes demonstrated in the recent SPAP® clinical studies has prompted Compumedics to undertake SPAP® licensing and other technology transactions with existent or new sleep treatment or ventilation organisations.

Driver Vigilance Assist: Compumedics' expertise in sleep monitoring technology has been used to research and develop prototype systems for monitoring driver drowsiness. Research projects in collaboration with Australian universities have shown that combining measurements of eye movements, body movements and EEG parameters of a driver provide the best estimate of driver drowsiness.

The Opportunity: Car manufacturers are offering driver vigilance systems on their new high-end models for prices ranging from \$1000 to \$4600, representing an Australian market of at least \$30 million per annum (PA) based on a small range of new passenger vehicles. The global market applicable to a small range of vehicles is more than US \$15 billion PA. None of the existing systems include the features covered by Compumedics' patents. Current systems may be relatively cumbersome, requiring glasses or other assists to monitor driver drowsiness, compared to the simple Compumedics system which, subject to end user sophistication and price requirements, can be configured to use various combinations of sensors in the steering wheel and seat, and video cameras combined with vehicle data outputs. Compumedics systems are suitable for retrofitting into passenger vehicles, truck fleets, busses, or any other type of vehicle, once the required parameters are determined. Compumedics owns patents in the USA, Australia, and Germany, which cover the features of its driver drowsiness system. The CMI Driver Vigilance Assist is being offered to vehicle manufacturers as well as after-market or vehicle parts manufacturers.

Mobile Health Services Platforms: Compumedics eHealth addresses a number of rapidly emerging markets with the 5-year growth outlooks for the mobile health of US \$20B (RnRMarketResearch 2013), telemedicine technologies of US \$35B (BCC 2014), self-care medical devices of US \$16B (Transparency Market Research 2014) and wearable technology to reach US \$70B by 2024 (Harrop P 2014).

In 1995 Compumedics was awarded, against the field of the world's 22 leading sleep companies, the contract to design and supply the mobile home monitoring software and hardware platforms for the US NIH Government funded US Sleep Heart Health Study (SHHS). The SHHS is the world's first and largest of its kind sleep study, with over 8,000 participants scheduled by 2008. Today these SHHS outcomes have been deployed as part of a standardised polysomnography database.

The Opportunity: Compumedics' mobile home monitoring experience, technology and products combined with their enterprise software solutions (Nexus), ideally position the Company to work with commercialisation partners in order to service the emergent mobile and telehealth market sectors.

Online Educational Services: The online education market is growing globally at a rate of 23% per annum, and in Australia at a rate of 19% per annum. This translates to an expected US \$255 billion global market in 2017 and by 2013 in Australia alone an AU \$5 billion market employing 19,000 Australians. The World Health Organisation report highlighted the rapidly expanding neurology disorders market (US \$12 billion PA), and particularly noted the growing prevalence of neurology disorders in the Asia Pacific region and the need for enhanced training and skills to manage this major public healthcare problem.

In terms of neurology markets, Compumedics/Neuroscan provide world leading clinical and research products, along with an extensive array of educational programs. Compumedics has exported about AU \$500 million of products from its Abbotsford factory. Its CURRY® brain source reconstruction software is known to be the best for neuroscience research laboratories. Many of the research organisations in US and European centres of excellence that will undertake the European brain simulation and US BRAIN project use Neuroscan.

The Opportunity: A consortium, comprising of Compumedics Limited as the industry partner and a number of Victorian research institutions that have exceptional expertise and capabilities is being formed to exploit the burgeoning market opportunities in neuroscience and online education, with a focus on Asia/Pacific delivery. The consortium will comprise of Compumedics Limited with its intellectual property in the CURRY® program.

Commercialization partners, licensing and other arrangements are being actively sought in order to unlock the value of the SPAP®, Driver Vigilance Assist, Mobile Health Services projects and Online Educational Services.

ACKNOWLEDGEMENTS

I wish to extend special thanks to all our employees, contractors, suppliers and other business partners for their dedicated support and loyalty.

SUMMARY

I mentioned last year that this is a great company and we are focused on returning to profitability and growth. This year's return to profitability has once again proven the resilience and mettle of Compumedics people, but most importantly the loyalty of our clients, partners and stakeholders.

However, we understand that there is much more to be achieved in the year ahead. Our focus on driving down manufacturing costs while improving delivery and quality will continue to be a focus in the year ahead.

In the coming year we will also be demonstrating the results of our continued R&D investment, by rolling out an extensive range of new clinical neurology, sleep, DWL and Neuroscan products. As part of our ever sharpening commercial focus, a number of these new products have been purposely designed to aggressively compete with the most competitive products worldwide, while still presenting a range of more sophisticated top-tier premier products synonymous with Compumedics innovative technology.

The year ahead will remain focused on driving profitable growth and continuing to drive deals off the back of our core business product rollouts and breakout innovations.

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

Yours sincerely,



Dr. David Burton, Ph.D.
Executive Chairman and Chief Executive Officer
Compumedics Limited

Profitability was restored in the current financial year. What were the main drivers of this?

There were a number of factors, which led to the company restoring profitability at the NPAT line to \$0.9m and substantially increasing EBITDA to \$3.0m. Firstly, the Company increased shipments to \$30.8m in the current year, almost 14% higher than the previous year. This was a direct result of the refinancing activities at the beginning of the financial year as well as a solid flow of new sales orders into the business. Secondly, the Company has focused on reducing the cost of manufacture and in particular outsourcing manufacturing. This helped lift gross margins by 2% during the financial year. Thirdly, the average exchange rates for the Australian Dollar against the US dollar and the Euro were lower in the current financial year compared to the prior financial year.

Whilst margins improved for the full year – margins did slip in the second half, what was the reason for this?

As mentioned, gross margins increased by about 2% for the year, which reflects the beginning of the margin improvements the Company expects from its initiatives to outsource manufacturing. The impact was reduced in the second half due to timing issues and some costs associated with outsourcing manufacturing. Also average exchange rates were higher in the second half of the year compared to the first half.

Geographically where did the Company grow in the 2014 financial year?

The US, Asia (including China), Middle East and the DWL business all posted growth in shipped and invoiced sales, with growth of 19%, 8%, 4% and 26%, respectively. Australia and Europe were consistent with prior years. The Company has focused on its key US market and has taken steps there to strengthen its sales and marketing ability and will continue to work on this in the first half of the new financial year. Germany for sleep and neurology was a disappointment for the Company this financial year, but steps are currently being taken there, which should address this key market over FY2015.

Where does the Company expect growth to come from in the current 2015 financial year?

The Company would expect to deliver year-on-year revenue growth at least equal to that achieved for FY2014, being 14%. This revenue growth should come from all of the Company's key markets including the US, China, Europe, with particular emphasis on Germany. The Australian and Middle Eastern markets will also show some growth although not at the rate expected out of the larger markets. The Company expects growth to be stronger across its neurology range but the sleep diagnostic business should also grow in the US and China in particular and also in Germany this coming financial year.

It should also be noted the DWL business in Germany should experience double digit growth through its expansion into the US and Indian markets and its on-going success in China.

The Company has indicated it has moved a significant amount of manufacturing to Asia.

Can you up-date on the progress of this and the likely impact during the current 2015 financial year?

The Company has embarked on a strategy to move substantive elements of its manufacturing to Asia, where it makes economic sense to do so and where the quality of the goods produced can be guaranteed. In the last six months of FY2014 the Company completed the transition of several manufacturing activities to Asia, which will deliver a 20% to 30% saving over manufacture in Australia. This amounts to a \$300k margin improvement, all other factors remaining the same. The Company will now focus on moving full manufacture for its larger volume selling devices to Asia. This process will take place over the next 6 to 12 months. As such the positive impact of this process will begin in FY2015 with the full impact being derived in FY2016. The Company will maintain some manufacturing in Australia for its smaller volume selling devices and to be able to transition new products from R&D to manufacture. The full impact of these initiatives should be a significant restoration of margins, all other factors remaining constant.

What new products does the Company have in the pipeline?

The Company has continued to spend approximately 16% of revenues on R&D enabling a constant flow of new products to market. This has included the Company releasing its latest version of sleep diagnostic software, Profusion Sleep 4 as well as the Company's latest version of EEG software, Profusion EEG 5. The Company is also soon to release its latest version of its main sleep diagnostic device, the GraeL®. The new GraeL® device will come in four configurations to better match differing market expectations across sleep diagnostics and neurological monitoring.

The Company also released a digital version of the Doppler Box for the DWL business into the transcranial Doppler market.

The Company will release the latest version of its gold-standard source localisation software, CURRY® 8, during calendar 2015.

Further, the Company has a new suite of the eHealth related products in development for these emerging markets particularly as it relates to sleep monitoring. More updates will follow on these projects as they further develop.

The Company has made some recent announcements on winning some eHealth contracts – can you explain what these are and their expected impact on the future financial performance of the Company?

As alluded to above the Company is developing a suite of new products and software for this fast emerging market. The Company has secured some initial contracts to develop these products and services through to commercial application and is actively discussing capitalization options for this new opportunity. This will be the subject of future announcement as milestones are achieved. These developments fit perfectly with an increasingly on-line world with the wearable technology market expected to be about US\$50bn, the eHealth market at US\$17bn and the telemedicine market at US\$35m in the next 5 years.

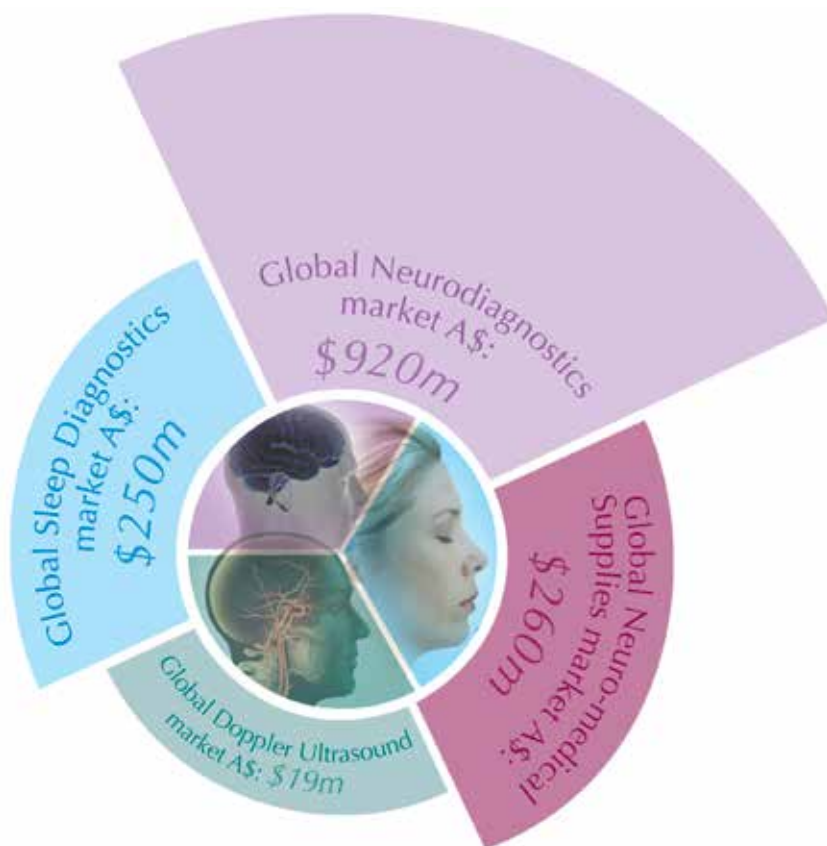
The Business of Compumedics

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

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

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

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



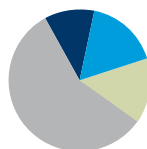
Global Sleep Diagnostics market

Description of the market:

The global Sleep Diagnostics industry is comprised of diagnostic and therapeutic technologies and medicines. Compumedics' core business lies in the design and manufacture of technologies for the diagnosis of sleep disorders – a market estimated to be worth AUD\$250 million worldwide and growing.

Where we compete:

- Asia 14%
 - Europe 15%
 - USA 56%
 - Australia/NZ 15%
- (Total Sales)



Competitive Advantages:

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

Current Market Share:

6%

Key drivers:

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

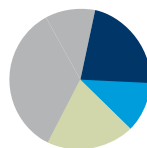
Global Brain Research market

Description of the market:

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

Where we compete:

- Asia 27%
 - Europe 23%
 - USA 40%
 - Australia/NZ 11%
- (Total Sales)



Competitive Advantages:

- 1 Superior patented technology
- 2 Uncompromised system design
- 3 Unmatched innovation

Current Market Share:

28%

Key drivers:

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

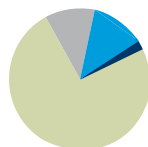
Global Neurodiagnostics market

Description of the market:

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

Where we compete:

- Asia 1%
- Europe 70%
- USA 13%
- Australia/NZ 16% (Total Sales)



Competitive Advantages:

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

Current Market Share:

less than 1%

Key drivers:

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

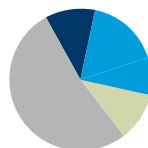
Global Neuromedical Supplies market

Description of the market:

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

Where we compete:

- Asia 11%
- Europe 10%
- USA 51%
- Australia/NZ 28% (Total Sales)



Competitive Advantages:

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

Current Market Share:

1%

Key drivers:

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

Global Doppler Ultrasound market

Description of the market:

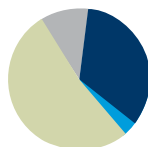
The Doppler Sonography technique utilises sound frequencies to measure the blood flow conditions in vessels and evaluate haemodynamics by using high-quality diagnostic and monitoring systems.

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

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

Where we compete:

- Asia 36%
- Europe 52%
- USA 10%
- Australia/NZ 2% (Total Sales)



Competitive Advantages:

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

Current Market Share:

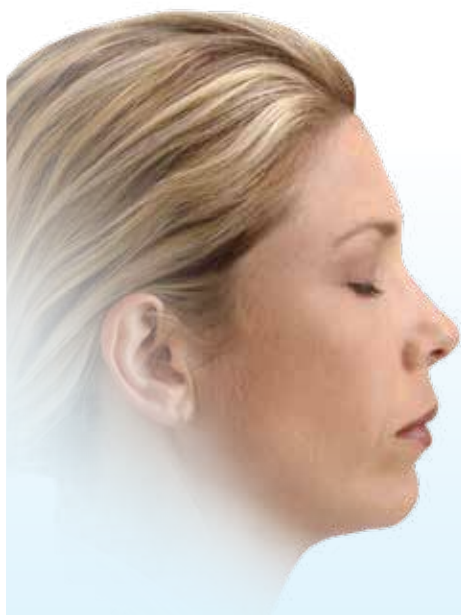
less than 35%

Key drivers:

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

Clients of Compumedics

Sleep Diagnostics



Products provided

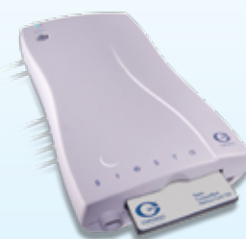
- Grael® – the world's first High Definition PSG/EEG
- Siesta®PSG – the ultimate in wireless Sleep recording systems
- Somté®PSG – unique holter style full PSG system
- Somté® – unique holter style cardio-respiratory system
- Profusion Sleep™ – the next generation world class sleep diagnostic software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

Key Clients

- Austin Repatriation & General Hospital (Aust)
- Monash Medical Centre (Aust)
- Royal Prince Alfred Hospital (Aust)
- Sir Charles Gairdner Hospital (Aust)
- Royal Children's Hospital (Aust)
- Minnesota Regional Sleep Disorder Center (USA)
- University of Michigan Medical Center (USA)
- Yale Medical Center (USA)
- Carolina Healthcare System (USA)
- Carolina Sleep Services (USA)



Compumedics Grael®-HD

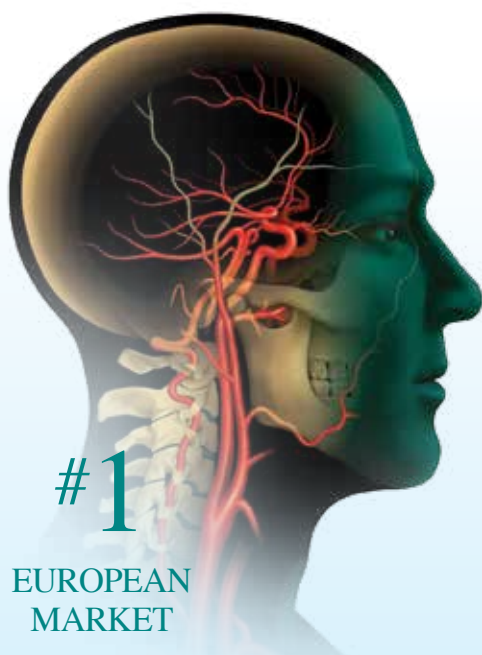


Compumedics Siesta®



Compumedics Somté® PSG

Ultrasonic Blood Flow Monitoring



Products Provided

- EZ-Dop®
 - Compact design. High performance.
- Multi-Dop® Pro
 - Flexible. Portable. And always at the ready.
- Doppler-Box™ X
 - A new Generation.
- Multi-Dop®T digital
 - Compact. And extremely versatile.
- Multi-Dop®X digital
 - A state-of-the-art all-in system.
- Multi-Dop®X digital with Color Doppler Imaging Module
 - Two Methods - One Solution.

DWL® Atlas of Doppler Sonography

Doppler sonography with its ability to measure flow velocity in blood vessels provides a perfect understanding of the hemodynamic situation under normal and pathological conditions. The great number of applications resulting from this ability touch upon a wide spectrum of medical and technical knowledge.

With the DWL® Atlas of Doppler Sonography it has been created a reference work presenting a wealth of information about Doppler sonography in pictures, videos, and not least, research papers.



Doppler-Box™ X



EZ-Dop®

Neuro Diagnostics (including Brain Research)

- Clinical
- Research



GLOBAL MARKET POSITION BEING BUILT

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

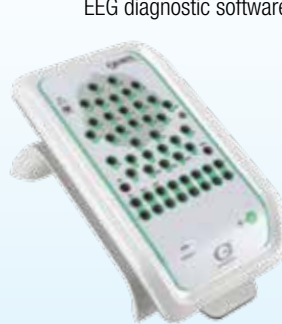
\$920M_{p.a.}

Products Provided

- Neuvo® LTM – the new standard in LTM & epilepsy monitoring
- GraeL® EEG – high-definition clinical EEG system
- E-Series™ EEG – network-ready laboratory and portable EEG solution
- Safiro® EEG – a perfect solution for ambulatory applications
- Siesta® EEG – the ultimate in wireless capabilities in EEG
- SynAmpsRT™ – world's most powerful and advanced amplifier
- CURRY® SCAN 7 Neuroimaging Suite - for signal acquiring, processing and source and image analysis
- MicroMagLink™ system – for EEG recording in the fMRI environment
- Stim™ – audio visual stimuli presentation software
- Profusion EEG™ – world class routine and LTM EEG diagnostic software

Key Clients

- Flinders Medical Centre (Aust)
- Austin Repatriation & General Hospital (Aust)
- St. Vincent's Hospital (Aust)
- Royal Children's Hospital (Aust)
- University of Melbourne (Aust)
- University of Sydney (Aust)
- Swinburne Centre for Applied Neuroscience (Aust)
- Yale New Haven Medical Center (USA)
- University of South Alabama (USA)
- Georgia Health Sciences University Medical Center (USA)
- University of Chicago (USA)
- Stanford University School of Medicine (USA)
- Oxford University (UK)
- Tokyo University (Japan)
- Peking University (China)



Compumedics
GraeL®-HD EEG



Compumedics
Neuvo®
512 Channel



Compumedics CURRY® SCAN 7
Neuroimaging Suite

NeuroMedical Supplies®

GLOBAL MARKET POSITION BEING BUILT



Products provided

Our comprehensive range of products
produced for this market are:

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

Key Clients

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

Sleep Diagnostics & Treatment



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

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

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

What is a Sleep Disorder?

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

How are Sleep Disorders Diagnosed?

General practitioners will refer patients who suffer from a variety of sleep-related symptoms (severe snoring, daytime tiredness, general fatigue and poor sleep patterns) to sleep physicians or respiratory physicians. At the specialist's recommendation, the patient may need to undertake a sleep study either in a sleep clinic or at home. In sleep studies, sensors are attached to the patient's head, chest, hands and legs. In home studies the patient is connected to a portable sleep diagnosis device prior to sleep. For 8 to 10 hours, breathing patterns, leg movements, eye movements, patient position and responses to light, sound and temperature are monitored using ECG, EEG, EMG, SaO₂, TeCO₂ and CPAP (a Continuous Positive Air Pressure device). High-resolution monitors display on-line and off-line physiological waveforms as well as trend analysis data.



Compumedics GraeI® -
The world's first
High Definition PSG/EEG.

Number of
known classified
sleep disorders:

85



Compumedics Somt6® PSG Vest - for easy set-up and patient comfort.



Somnilink® SPAP®
- Compumedics' innovative sleep apnoea therapy device.



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



Compumedics Somt6® PSG - the next
generation of Somt6 recorders.
Full PSG... absolutely anywhere.

How Common are Sleep Disorders?

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

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

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

- Obesity
- Ageing
- Genetic predisposition
- Smoking
- Alcohol consumption

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

Links to Other Diseases

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

sleep leads to the high blood pressure in this condition.

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

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

Neuro Diagnostics (including Brain Research)



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

"We evaluated solutions from other vendors but none could provide the integrated solution that Compumedics offered to help guide us in surgically treating this patient population."

Dr. Dean Naritoku, Professor and Chair of Neurology, USAMC.



Compumedics Graef® HD
EEG System -
High Definition
Clinical EEG System

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

What is clinical Neurodiagnostics?

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

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

EEG is an important growth area and part of the "journey" for Compumedics: EEG is the largest segment of the world market for Neurodiagnostics.

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

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

Growth in neurodiagnostics is being driven by the prevalence of reliable technology and performance requirements of the EEG as a clinical instrument in surgical therapy,

known as Intraoperative Monitoring (IOM), and for extended epilepsy monitoring or Long Term Monitoring (LTM).

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

What is brain research?

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

Why is this important to Compumedics?

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

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

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



Profusion EEG
- World class software for
Routine and LTM
EEG diagnostics.



CURRY SCAN 7 Neuroimaging
Suite - for signal acquiring,
processing and source and
image analysis.



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

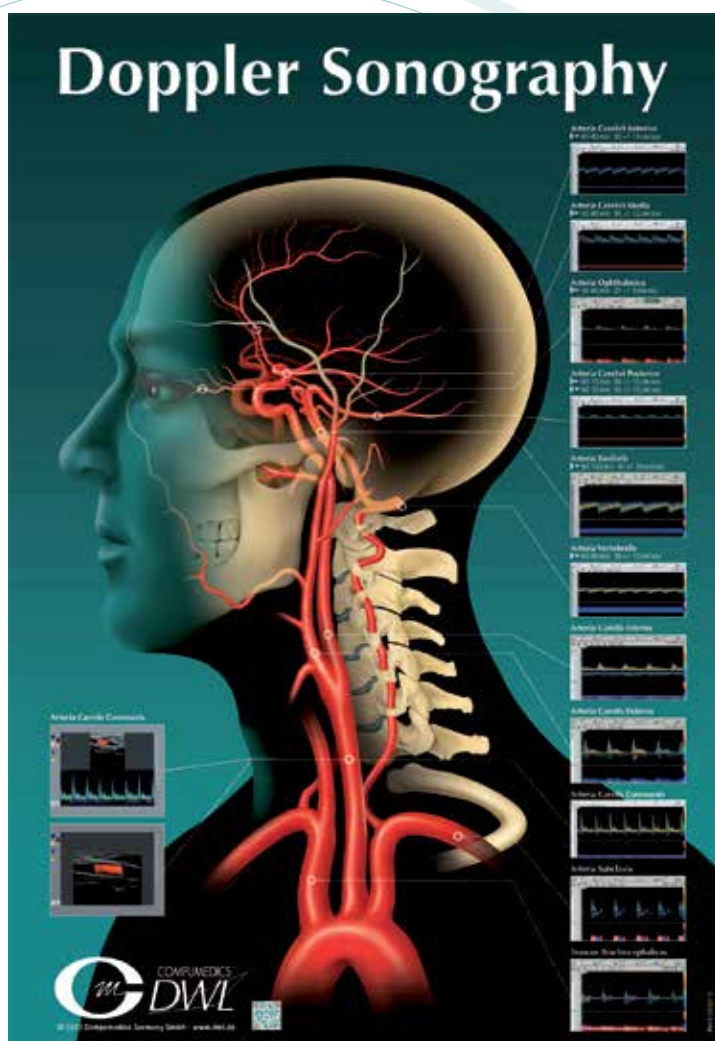
Ultrasonic Blood Flow Monitoring



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



TCD Monitoring



Doppler Sonography : Technology with a future

Transcranial Doppler sonography is a highly specialized and clearly defined area of competency in medical technology. The technology has been continuously developed since the first systems were introduced by Rune Aaslid at the beginning of the 1980s. Doppler systems have been able to maintain their position compared to much more complicated diagnostic methods due to the lower costs, the expressive findings and, last but not least, the possibility of continuous monitoring in real time; benefits which an increasing number of users have come to appreciate.

Core competence - TCD

At Compumedics DWL®, we have been working at the highest level of innovation on further developing and perfecting transcranial Doppler sonography for many years. Where others have diversified, we have made clear decisions: With a highly specialized international team of experts, we continuously work towards making our Doppler systems even more efficient and user friendly. We are doing what we do best. And we are getting better every day.



Multi-Dop®X digital with Color Doppler Imaging Module -
A state-of-the-art complete solution which combines the latest Doppler technology with a Color Doppler Imaging module for intracranial Doppler investigations and extracranial Duplex investigations.



Doppler-Box™ X
A new generation - Doppler technology with the highest level of innovation. Connects to any external Windows®-based computer.

Always one step ahead

Our international team of experts has continuously set new benchmarks – from the first DWL® Doppler systems for bilateral transcranial monitoring in 1992, through the constant further development of embolism detection and differentiation to digital Doppler technology of the highest technical standards. We have not only been able to perfect the existing technology, but have also succeeded in developing a whole new range of innovative applications for Doppler sonography.

We help to save lives

The core competency of our company and of our employees is transcranial Doppler sonography and its unique performance such as in the detection and differentiation of embolisms. In close contact with professors and research institutes throughout the world, we perfect diagnosis methods, develop new applications and, in doing so, we help to save lives.

At home in 120 countries

Currently, 8,000 DWL® systems installed in more than 120 countries do their duty reliably every single day of the week – evidence of the trust that experts in many different specialist fields place in DWL® Doppler systems. Practical experience finds its way directly into our development department via our global network of expert distributors. This allows us to work continuously towards making our systems even easier and more flexible to use and to achieve even more precise and reliable results in both routine diagnostics and monitoring.



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



After several successful years of marketing our products and services through local distributors, we have moved closer to our North American customers:

In founding DWL US, Inc., located in San Juan Capistrano, California, with US wide local sales representation, we have laid the foundation to provide even better service and support.

NeuroMedical Supplies



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

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

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

What is NeuroMedical Supplies?

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

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

Installed
Compumedics/
Neuroscan/DWL
sites globally

over
14,000

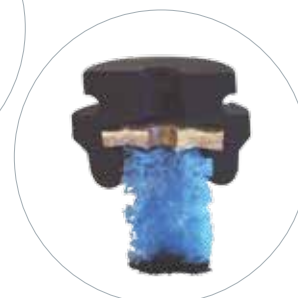




Summit IP™ – Respiratory effort sensor system using true inductive plethysmography



QuikCell™ – Unique liquid electrolyte application system



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

NeuroMedical supplies endeavours to provide our clients with competitively priced supplies and accessories for all of their sleep and neurodiagnostic needs. We are constantly expanding our product offerings and looking for creative and effective ways to enhance customers' purchasing experience with our company. Just in time delivery, annual contract purchase discounts and per-patient

customised pricing bundles are a few of the initiatives we pursue to enhance our clients productivity while minimising their costs.

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



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

US Market for Neuromedical supplies:

over
\$250M

Number of beds installed with Compumedics sleep equipment globally:

over
4,000

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

Board of Directors:

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



Dr. David Burton, Ph.D.

Executive Chairman, CEO

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

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

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

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

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



Mr. Alan Anderson

Non-Executive Director

Mr Anderson, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented Compumedics for all legal matters in the USA since late 1998.

Mr Anderson completed his Bachelor of Arts with Honours (Political Science) at Coe College. He also holds a Master of Business Administration with Distinction, a Doctor in Law with Honours from Cornell University, and a Certificate in International Business and Commercial Law from the McGeorge School of Law (University of the Pacific).



Mr. David Lawson

Executive Director

Mr Lawson has been Chief Financial Officer and the Company Secretary of the Company for over fourteen years. In that time, Mr Lawson has been extensively involved in the development of the Company including the Initial Public Offering of shares in the Company, the subsequent offshore acquisitions in the US and Germany, private equity placements and the recent refinancing of the Company. Mr Lawson also has been involved in the operational turn around of the Company and brings a significant amount of experience and knowledge to the Board. Mr Lawson is also a Director of Swinburne Venture Pty Ltd, the intellectual property commercialisation arm of Swinburne University.

Senior Management:



Dr. David Burton, Ph.D.
Executive Chairman, CEO



David Lawson
Executive Director,
Chief Financial Officer
& Company Secretary



Warwick Freeman
Chief Technology Officer


21
22



Kerry Hubick
Trademark, Patent
& General Legal Attorney



Christoph Witte
General Managing Director
DWL Compumedics Germany GmbH



Annual Financial Statements

for the year ended 30 June 2014

Contents

Corporate Information	1
Directors' Report	2
Auditors' Independence Declaration	15
Corporate Governance Statement	16
Financial Statements – 30 June 2014	22
Statement of Profit or Loss And Other Comprehensive Income	23
Statement of Financial Position	24
Statement of Changes in Equity	25
Statement of Cash Flows	26
Notes to the Financial Statements	27
Directors' Declaration	71
Independent Audit Report	72

Corporate Information

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

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

Directors
Dr. David Burton
Mr. Alan Anderson
Mr. David Lawson*

* Dr. Graham Mitchell retired at the Company's 2013 Annual General Meeting held on 31 October 2013 and Mr. David Lawson was appointed a Director at that time.

Secretary Mr. David Lawson

Executive team
Executive Chairman, CEO
David Burton
Executive Director and CFO
David Lawson
Chief Technology Officer
Warwick Freeman
Legal Counsel & Patent Attorney
Kerry Hubick
General Managing Director DWL Compumedics Germany GmbH
Christoph Witte
Vice President, Chief Scientist, Neuroscan
Curtis Ponton

Notice of annual general meeting
The annual general meeting of Compumedics Limited
will be held at Compumedics Limited
30-40 Flockhart Street
Abbotsford VIC 3067
time 10.30am
date Thursday 30 October 2014

Principal registered office in Australia
30–40 Flockhart Street
Abbotsford VIC 3067
Telephone: (03) 8420 7300

Share registers
Link Market Services Limited
Level 4
333 Collins Street
Melbourne VIC 3000
Phone: 1300 554 474

Auditor
Hayes Knight Audit
31 Queen Street
Melbourne VIC 3000

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

Website address www.compumedics.com.au

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Compumedics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014.

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

Dr. David Burton
Mr. Alan Anderson
Mr. David Lawson

* Dr. Graham Mitchell retired at the Company's 2013 Annual General Meeting held on 31 October 2013 and Mr. David Lawson was appointed a Director at that time.

Principal activities

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

Dividends

The directors have not declared a dividend in the current financial year (2013: nil).

Review of operations

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

	Total Revenue		Segment Results	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
USA	9,523	7,774	(775)	(2,255)
Australia and Asia Pacific	11,808	11,087	1,775	888
Europe	9,510	8,289	1,101	928
Total continuing operations	30,841	27,150	2,101	(439)
Depreciation and amortisation			(1,419)	(1,210)
Finance costs			(611)	(414)
Other income			901	781
Profit / (loss) before income tax expense			972	(1,282)
Income tax expense			(63)	(207)
Profit / (loss) for the year			909	(1,489)

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

A number of key milestones and initiatives were successfully achieved during the year including reducing the backlog of sales orders on hand through a higher rate of shipments, the successful transition of neurological cap manufacture to Asia and the ongoing strengthening of our sales and marketing team, particularly in the US.

FINANCE

During the financial year the Company worked with its primary working capital provider to ensure the Company could manufacture at a rate sufficient to reduce the excessive backlog of sales-orders the Company had at the start of the financial year. Largely these activities have been successful and the Company is continuing to utilise the facilities provided to it to further reduce the sales-order backlog. The Company sought and received additional funding from certain of its shareholders during the year to supplement its financing needs. Details of these loans are described in Note 15 to these accounts.

OPERATIONS

Compumedics maintained its research and development (R&D) investment at 16%, or more than twice the industry standard. Consequently, the Company has retained its technological leadership, with a strong pipeline of new and exciting upcoming product releases and upgrades.

In order to enable the Company to operate profitably with a persistently high Australian dollar the Company has invested in a number of structural reforms designed to restore and then ensure continued growth in profits. These structural reforms include retooling and relocation of select manufacturing functions to more competitive manufacturing regions, such as Taiwan and other parts of Asia. The Company is also well advanced with designing a range of more competitive neurology and sleep products, incorporating premium performance but enabling the Company to access a larger portion of the global market through reduced cost of manufacture.

While these structural transforms have demanded significant investment in the short term, in terms of personnel, engineering and components, they will result in substantial savings and elevated shareholder returns in the medium term through improved margins.

STRENGTHENED SALES AND MARKETING

The Group achieved the following geographical outcomes.

(a) USA

Total US revenues were \$9.5m for the year ended 30 June 2014 compared to \$7.8m) for the prior year. The increased sales revenue in the US reflects the increased shipments of goods for the financial year and the on-going flow of sales orders taken in the US, through to 30th June 2014.

(b) Asia Pacific

Australian and Asia Pacific revenues for the year ended 30 June 2014 were \$11.8m compared to \$11.1m for the prior year. Revenues in this region were primarily influenced by the ability to ship all orders received by 30th June 2014. The Australian, Chinese and other Asian markets performed well for the year ended 30th June 2014.

(c) Europe

European revenues for the year ended 30 June 2014 were better than the prior year as the German-based DWL business was able to ship all sales orders it received in a timely manner.

As previously noted, Compumedics has entered the Long-Term Epilepsy Monitoring (LTEM) market, a new and incremental market, with the launch of its innovative LTEM product, Neuvo®. This takes Compumedics into a pre-existing, but new market for the Company, which has estimated current annual sales of about US\$200m in the US and approximately US\$400m globally. Compumedics is well positioned to capture a 5% share of this global market over the next few years. Compumedics has achieved approximately \$4m in annual incremental revenues from this market over the last two years and will look to expand this through to the initial target of a 5% global market share.

In the Company's core sleep diagnostic business, Compumedics has the most sophisticated and advanced range of portable sleep-monitoring systems of any of the companies competing in these markets. The Company continues to be recognised as a leading sleep diagnostic company world-wide and as such global sleep diagnostic markets continue to offer opportunities for growth, particularly in Asia Pacific and specifically China.

The Company will continue its development of the sleep-treatment market with its partner in Italy over the next twelve months and concurrently ramp up its commercialisation opportunities in Australia and Asia.

BREAKOUT MEDICAL INNOVATIONS

Compumedics Medical Innovation (CMI) division has continued to develop a number of breakout technology platforms. Each of these CMI platforms incorporates a folio of patents, compliments Compumedics' core business, presents unique and significant product differentiation, and has been independently validated, as outlined in the subsequent sections.

SUMMARY

The Company has stayed the course and continued to execute upon its strategy, to produce the best of class high quality, innovative, medical products and expand our business through a focus on sales and marketing and a strong R&D investment. Importantly this has also resulted to the Group returning to profitability for the year ended 30th June 2014. Additionally key initiatives such as our structural reforms and medical innovations are now gaining traction, as we continue to focus on strengthening our Company and building shareholder values.

This is a great Company and we remain confident the operational initiatives currently being undertaken will improve profitability in the short-term, allowing our very positive prospects for the medium and long-term to be realised. The demand for innovative healthcare solutions continues to be underpinned by an ever-increasing ageing population, coupled with the growing incidence and awareness of neurology and sleep disorders.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

Further information on likely developments in the operations of the Group and the expected results of operations have not been included as the main drivers for these matters being market conditions and external factors, such as movements in foreign exchange rates, are not readily predictable in the current economic climate.

Significant Changes in State of Affairs

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

Matters subsequent to the end of the financial year

The Directors are not aware of any matters subsequent to the end of the financial year that would have a material impact on the financial performance of the Group.

Environmental Regulation

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

Information on directors

Dr. David Burton, Chairman and Chief Executive Officer, Age 55.

Experience and expertise

Founder and major shareholder through related entity. He was awarded an Associate Diploma in Engineering (Electronics) by the Royal Melbourne Institute of Technology and a Ph.D. (Eng. Sc.) by Monash University, Melbourne (Australia). Dr. Burton's engineering background includes the design and project management of the Compumedics' first sleep laboratory and portable sleep systems. Dr. Burton has authored fifteen patents or patent applications that form part of Compumedics' key intellectual property. Extensive experience in the development, design, manufacture and sale of medical devices and the development of the business.

Other current directorships

D & DJ Burton Holdings Pty Ltd
Intellirad Pty Ltd
Electro Molecular Pty Ltd

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Board
Member of Remuneration Committee
Member of Audit Committee

Interests in shares and options through related entities

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

Mr David Lawson, Executive Director and Chief Financial Officer, Age 49

(Mr. Lawson was elected as a Director of the Company at the Annual General Meeting held in October 2013)

Experience and expertise

Has a Bachelor of Commerce from Melbourne University and is a Member of Chartered Accountants in Australia and New Zealand. He has extensive experience in the development of the Compumedics business over the last 15 years and prior to that held a number of management positions with another listed public entity.

Other current directorships

Swinburne Ventures Pty Ltd

Former directorships in last 3 years

None

Special responsibilities

Member of the Remuneration Committee
Member of the Audit Committee

Interests in shares and options

4,346,650 ordinary shares in Compumedics Limited

Mr. Alan Anderson Non-Executive Director, Age 58.

Experience and expertise

Extensive legal experience, particularly in intellectual property litigation, in both defence and offence.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Remuneration Committee
Chairman of the Audit Committee

Interests in shares and options

89,665 ordinary shares in Compumedics Limited

Company secretary

The company secretary is Mr. D. F. Lawson, Chartered Accountant. Mr. Lawson was appointed to the position of Company Secretary in 2000. Before joining Compumedics Limited he held various financial positions with another listed public company for 8 years. Mr. Lawson has a Bachelor of Commerce from Melbourne University and is a Member of Chartered Accountants in Australia and New Zealand.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

Meetings of committees

	Full meetings of directors		Audit		Remuneration	
	A	B	A	B	A	B
Mr. David Burton	8	8	2	2	1	1
Mr. Alan Anderson	8	8	-	2	1	1
Mr. David Lawson	6	6	2	2	1	1

A – Number of meetings attended

B – Number of meetings held during the time the director held office or was a member of the committee during the year

Remuneration report (audited)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

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

A Principles used to determine the nature and amount of remuneration

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

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

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. The Board is satisfied remuneration recommendations are made free from undue influence by the members of the key management personnel.

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

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

Non-executive directors

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

Non-executive directors do not receive share options.

Directors' fees

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

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

The following fees have been applied:

	From 1 July 2013 to 30 June 2014 \$	From 1 July 2012 to 30 June 2013 \$
Base fees		
Chairman	50,000	50,000
Other non-executive directors	30,000	30,000
Additional Fees		
Audit committee – chairman	5,000	5,000
Audit committee – member	2,500	2,500
Remuneration committee – chairman	5,000	5,000
Remuneration committee – member	2,500	2,500

Executive pay

The executive pay and reward framework has 5 components:

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through participation in the Compumedics Limited Employee Option Plan
- Other remuneration such as superannuation, and
- Long-term equity linked incentive program specifically for the head of the Medical Innovations Division.

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

Base pay

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

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

Benefits

Executives may receive benefits including health insurance, car allowances, other expense reimbursements and tax advisory services.

Superannuation

Retirement benefits are currently limited to the statutory rate of superannuation, but are not capped based on salary. Executives may elect to make further salary sacrifice additions to superannuation funds of their choice, up to the allowable limits prescribed.

Short-term incentives

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

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target bonus opportunity can be up to 60% of base pay, as determined by the remuneration committee each year.

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

For the year ended 30 June 2014, the KPIs linked to short-term incentive plans were based on Group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to revenue growth and profitability as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. KPIs are set according to the individual responsibilities of each member of the executive team.

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

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

The STI target payment is assessed by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) following the end of each financial year and any payments due are recommended to the remuneration committee for authorisation. The CEO and CFO recommend STI targets for the following year for key executives, which are put to the remuneration committee for review and authorisation annually.

Long-term incentives

The Company has instigated a long-term incentive program for one executive. At 30 June 2014 no other long-term incentive plans were in place for any other Director or key management personnel. Any instigation of a long-term incentive program for any other executive of the Company will be determined by and authorised by the remuneration committee and the remuneration committee will assess subsequent performance.

Medical Innovation Long Term Performance Plan (MI-LTPP)

The Group has formalised and gained approval at the 2009 annual general meeting for the MI-LTPP for the head of the Medical Innovations Division ("Division Head"), who is currently the Executive Chairman. The rationale of the MI-LTPP is to reward the Division Head where future commercial projects are met on the following criteria:

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

On the basis that these 3 criteria exist, and, determined by the Remuneration Committee, a commercial project will be eligible for inclusion under the MI-LTPP. At 30 June 2014 the Remuneration Committee has approved several projects that are eligible under the MI-LTPP subject to the parameters discussed below.

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

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

The Board has recommended to shareholders the 8% equity be issued and has sought approval for such at the forth coming Annual General Meeting.

Compumedics Employee Option Plan

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

B Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group are the directors of Compumedics Limited (see pages 4 to 5 above) and those executives that report directly to the Chief Executive Officer being:

- Warwick Freeman, Chief Technology Officer
- Kerry Hubick, Chief Legal Officer
- Christoph Witte, Managing Director – Compumedics Germany GmbH

Remuneration of key management personnel and other executives of the Group

2014	Short-term benefits			Post-employment benefits		Long term benefits	Share based payments	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Retirement benefits \$	Long service leave \$	Options \$	Total \$
<i>Non-executive directors</i>								
Alan Anderson	40,000	-	-	-	-	-	-	40,000
Graham Mitchell	12,395	-	-	1,146	-	-	-	13,541
Sub-total non-executive directors	52,395	-	-	1,146	-	-	-	53,541
<i>Executive Chairman</i>								
David Burton	50,000	-	-	-	-	-	-	50,000
<i>Executive Director & CEO</i>								
David Burton	150,000	-	-	-	-	-	-	150,000
<i>Executive Director</i>								
David Lawson	24,750	-	-	-	-	-	-	24,750
<i>Executive Director & CFO</i>								
David Lawson	222,871	-	-	20,615	-	4,259	-	247,745
<i>Other key management personnel</i>								
Warwick Freeman	222,871	-	-	20,615	-	4,259	-	247,745
Kerry Hubick	174,840	-	-	16,173	-	3,341	-	194,354
Christoph Witte	256,574	60,889	-	22,134	-	-	-	339,597
Total key management personnel compensation	1,101,906	60,889	-	79,537	-	11,859	-	1,254,191

Note: Graham Mitchell retired as a Non-Executive Director of the Company at the Annual General Meeting of the Company, held in October 2013. At the same meeting David Lawson was appointed a Director of the Company.

2013	Short-term benefits			Post-employment benefits		Long term benefits	Share based payments	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Retirement benefits \$	Long service leave \$	Options \$	Total \$
<i>Non-executive directors</i>								
Alan Anderson	40,000	-	-	-	-	-	-	40,000
Graham Mitchell	30,023	-	-	2,477	-	-	-	32,500
Sub-total non-executive directors	70,023	-	-	2,477	-	-	-	72,500
<i>Executive Chairman</i>								
David Burton	50,000	-	-	-	-	-	-	50,000
<i>Executive Director & CEO</i>								
David Burton	150,000	-	-	-	-	-	-	150,000
<i>Other key management personnel</i>								
David Lawson	222,871	25,000	-	20,058	-	4,259	-	272,188
Warwick Freeman	222,871	-	-	20,058	-	4,259	-	247,188
Kerry Hubick	174,840	-	-	15,735	-	3,247	-	193,822
Christoph Witte	209,062	42,700	-	18,880	-	-	-	270,642
Total key management personnel compensation	1,099,667	67,700	-	77,208	-	11,765	-	1,256,340

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

Name	Fixed Remuneration		At risk – STI		At risk - LTI	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Directors of Compumedics Limited						
David Burton	100	100	-	-	-	-
Dr. Graham Mitchell	100	100	-	-	-	-
Alan Anderson	100	100	-	-	-	-
David Lawson	100	91	-	9	-	-
Other key management personnel of Compumedics Limited						
Warwick Freeman	100	100	-	-	-	-
Kerry Hubick	100	100	-	-	-	-
Other key management personnel of the Group						
Christoph Witte	82	84	18	16	-	-

The table below identifies for each cash bonus and grant of options included in the tables on pages 9 and 10, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria set. No other cash bonus targets were set for any other executive of the Company for the year ended 30 June 2014. As such no other executive was eligible for a cash bonus and as a consequence did not forfeit a cash bonus.

Name	Cash bonus	
	Paid %	Forfeited %
Christoph Witte	100	-

C Service agreements

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

Remuneration and other terms of employment for the Chief Financial Officer and the other key management

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

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

David Burton, Chief Executive Officer/Chairman

- Fee for services provided for the year ended 30 June 2014 of AUD200,000, to be reviewed annually by the remuneration committee. David Burton is also entitled to participate in the Medical Innovation Long Term, Performance Plan as approved at the 2009 Annual General Meeting.
- D & DJ Burton Holdings Pty Ltd a company associated with D. Burton receives licence fees, described in Note 29.
- Performance bonus: no performance bonus was paid during the financial year. (2013: Nil).
- Review of last salary and fees -1 July 2013
- David Burton will have a formal service agreement. The terms above are based on informal agreements.

David Lawson, Executive Director, Chief Financial Officer/Company Secretary

- Base salary inclusive of superannuation, for the year ended 30 June 2014 of AUD 247,745 to be reviewed annually by the remuneration committee. Directors fees of \$24,750 were also paid (2013: NIL)
- Performance bonus: No performance bonus was granted or paid during the financial year. (2013: \$25,000)
- Review of last salary -1 July 2013
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Warwick Freeman, Chief Technology Officer

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2014 of AUD247,745 to be reviewed annually by the remuneration committee
- Review of last salary -1 July 2013
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Kerry Hubick, Legal Counsel and Patent Attorney

- Base salary inclusive of superannuation and car allowance, for the year ended 30 June 2014 of AUD194,354 to be reviewed annually by the remuneration committee.
- Review of last salary -1 July 2013
- The service agreement takes the form of a letter of offer, which incorporates Compumedics standard conditions of employment, which reflects termination notice of four weeks, amongst other basic statutory conditions.

Christoph Witte, Managing Director, DWL

- Base salary inclusive of superannuation, for the year ended 30 June 2014 of EUR188,260, to be reviewed annually by the remuneration committee.
- Car Allowance of EUR7,620
- Performance bonus – a performance bonus, granted in September 2013, of EUR41,265 was paid during the financial year. (2012: EUR33,925)
- Review of last salary -1 July 2013
- Christoph Witte's service agreement commenced 1 September 2004 with a 2 year fixed notice period from 1 September 2005, after which the notice period reduced proportionately to six months at 1 September 2007.

D Share-based compensation

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

- 20% of each new tranche vests and is exercisable at the 1st anniversary date of the grant
- 30% of each new tranche vests and is exercisable at the 2nd anniversary date of the grant

- (iii) 50% of each new tranche vests and is exercisable at the 3rd anniversary date into one ordinary share of the Company.

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

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

The Company did not have any share-based payments in the full year ended 30 June 2014. Unissued ordinary shares in Compumedics Limited under option at the date of this report held by directors are Nil.

E Additional information

Loans to directors and executives

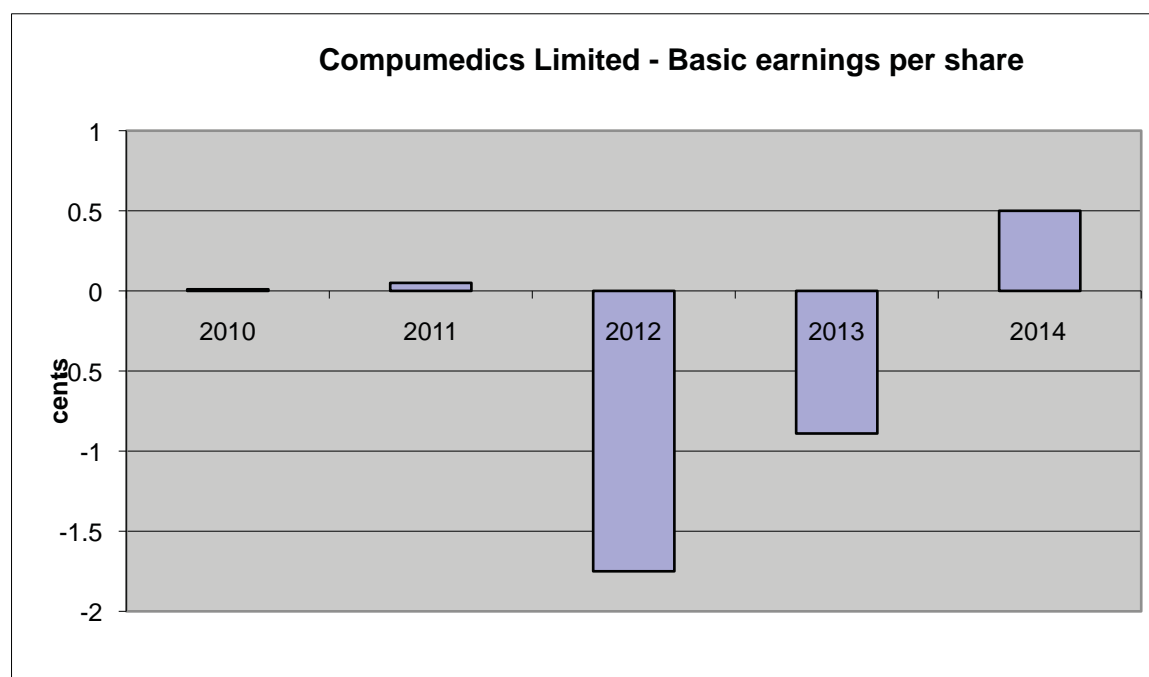
No current loans to directors and executives.

Shares under option

There were no unissued ordinary shares of Compumedics Limited under option at the date of this report. No options expired during the financial year ended 30 June 2014 (2013: NIL).

There were no new options issued during the year.

Group performance



The earnings per share performance of the Compumedics Group reflects the improved financial performance of the group and the improving external environment in which the group operates as at June 2014. The directors remain focused on driving earnings per share higher.

Insurance of officers

During the financial year, Compumedics Limited paid premiums of \$31,926 to insure the Directors and Secretary of the Company and its Australian-based controlled entities, and the Executives and other senior managers of each of the divisions of the Group.

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

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

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

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

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

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

	Consolidated	
	2014	2013
	\$	\$
Non-audit services		
<i>Taxation services</i>		
Tax compliance services	12,500	55,495
Total remuneration for taxation services	12,500	55,495

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Rounding of amounts

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

Auditor

Hayes Knight Audit continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

A handwritten signature in black ink, appearing to read 'David Burton', with a stylized flourish at the end.

David Burton
Director

Melbourne
24 September 2014



Hayes Knight Audit
chartered accountants · your partners in success

Hayes Knight Audit Pty Ltd

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Melbourne, VIC 3000

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Registered Audit Company 291969

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Compumedics Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Hayes Knight Audit

Hayes Knight Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this

24

day of

SEPTEMBER

2014

Corporate Governance Statement

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

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

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

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

The board of directors

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

Board composition

The charter states:

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

Responsibilities

The responsibilities of the board include:

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

Board members

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

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

The Board seeks to ensure that:

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

Directors' independence

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

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

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

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

At the date of this report Alan Anderson, a director of the company, is considered independent according to the governance provisions laid down by the Australian Securities Exchange.

Term of office

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

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

Chairman and Chief Executive Officer (CEO)

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

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

Commitment

The Board held 8 Board meetings.

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

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2014, and the number of meetings attended by each director is disclosed on page 6.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2014.

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

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

Conflict of interests

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

Independent professional advice

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

Performance assessment

The Chairman, with the participation of the Board members, undertakes a semi-annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The last assessment was undertaken during the period ended June 2013.

Corporate reporting

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

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

Board committees

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

Each committee is developing its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate, commensurate with the current size of the Company and the main Board of Directors for the Company.

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

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

Remuneration committee

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

A Anderson (Chairman)
and the following executive directors:
D Burton
D Lawson

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 6 .

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

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

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

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

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

Audit committee

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

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

Details of the director's qualifications and attendance at audit committee meetings are set out in the directors' report on pages 4-6.

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

The audit committee operates in accordance with a charter that is being developed. The main responsibilities of the committee are to:

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

- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

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

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

External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Hayes Knight Audit were appointed as the external auditors at the annual general meeting in October 2013.

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

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

Risk assessment and management

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

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

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

Code of Conduct

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

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

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

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

The Code requires employees who are aware of unethical practices within the Group or breaches of the company's trading policy to report these through the Chief Financial Officer or the Chief Executive Officer.

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

Continuous disclosure and shareholder communication

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

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

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

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

Diversity policy

The Corporate Governance Principles and Recommendations include that a company has a formal diversity Policy. The company will, during the next reporting period, establish and implement a diversity policy, which will include, but not be limited to, gender, age, ethnicity and cultural background of the Board and Key Management Personnel. The company will set measurable objects to measure the achievement of the diversity policy, and introduce procedures to ensure its proper implementation. An internal review will be conducted annually to assess the effective of the policy and its implementation procedures.

Share Trading Policy

The company has issued a share trading policy, which was lodged with the Australian Stock Exchange in December of 2010. The intent of this share trading policy is to preserve the reputation and integrity of Compumedics so as to ensure when people associated with Compumedics deal in securities of the company those dealings are not only fair but are seen to be fair.

As such the general scheme of the share trading policy regarding allowable dealings by employees and Directors in Compumedics securities is that person should:

- 1 never engage in short-term trading of Compumedics securities
- 2 not deal in Compumedics securities while in possession of price sensitive information
- 3 notify the Company Secretary of any material intended transactions involving the Company's securities;
and
- 4 restrict their buying and selling of Compumedics securities to within the specified "trading window".

Financial Statements – 30 June 2014

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

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

Compumedics Limited
30-40 Flockhart Street
Abbotsford VIC 3067
Australia

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

The financial report was authorised for issue by the directors on 24 September 2014. The company has the power to amend and reissue the financial report.

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

Statement of Profit or Loss And Other Comprehensive Income

For the year ended 30 June 2014

		Consolidated	
	Notes	2014 \$'000	2013 \$'000
Revenue			
Sale of goods	5	30,841	27,150
		30,841	27,150
Other income	6	901	781
Expenses			
Cost of sales		(14,554)	(13,330)
Administration		(4,603)	(4,476)
Sales and marketing		(5,844)	(5,905)
Research and development	7	(5,158)	(5,088)
Finance costs	7	(611)	(414)
Profit / (loss) before income tax		972	(1,282)
Income tax expense	8	(63)	(207)
Net profit / (loss)		909	(1,489)
Other comprehensive income:			
<i>Will be reclassified subsequently to profit and loss when specific conditions are met.</i>			
Foreign currency translation		(100)	377
Other comprehensive income/(loss) for the year,		(100)	377
Tax impact of other comprehensive income/(loss)		-	-
Total comprehensive income/(loss) for the year		809	(1,112)
Profit / (loss) is attributable to:			
Equity holders of Compumedics Limited		909	(1,489)
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of Compumedics Limited		809	(1,112)
		Cents	Cents
Earnings / (loss) per share for profit (loss) attributable to the ordinary equity holders of the company:			
Basic earnings / (loss) per share	34	0.54	(0.91)
Diluted earnings / (loss) per share	34	0.54	(0.91)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2014

		Consolidated	
	Notes	2014 \$'000	2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	1,054	1,292
Trade and other receivables	10	8,749	8,105
Inventories	11	6,145	5,498
Total current assets		15,948	14,895
Non-current assets			
Property, plant and equipment	12	672	738
Intangible assets	13	2,902	3,454
Total non-current assets		3,574	4,192
Total assets		19,522	19,087
LIABILITIES			
Current liabilities			
Trade and other payables	14	4,601	4,600
Borrowings	15	2,018	2,339
Provisions	16	2,310	2,139
Deferred revenue	17	1,276	1,321
Income tax payable	8	39	182
Total current liabilities		10,244	10,581
Non-current liabilities			
Borrowings	18	-	-
Provisions	19	31	27
Deferred revenue	20	85	126
Total non-current liabilities		116	153
Total liabilities		10,360	10,734
Net assets		9,162	8,353
EQUITY			
Contributed equity	21	31,269	31,269
Reserves	22(a)	(695)	(595)
Accumulated losses	22(b)	(21,412)	(22,321)
Total equity		9,162	8,353

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

Statement of Changes in Equity

For the year ended 30 June 2014

	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
At 1 July 2012		31,019	(972)	(20,832)	9,215
Loss for the year		-	-	(1,489)	(1,489)
Other comprehensive income		-	377	-	377
Total comprehensive income/(loss) for the year		-	377	(1,489)	(1,112)
Transactions with owners in their capacity as owners:					
New shares issued	21(b)	250	-	-	250
At 30 June 2013		31,269	(595)	(22,321)	8,353
At 1 July 2013		31,269	(595)	(22,321)	8,353
Profit for the year		-	-	909	909
Other comprehensive loss		-	(100)	-	(100)
Total comprehensive income/(loss) for the year		-	(100)	909	(809)
Transactions with owners in their capacity as owners:					
New shares issued		-	-	-	-
At 30 June 2014		31,269	(695)	(21,412)	9,162

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2014

	Notes	Consolidated	
		2014	2013
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		31,564	28,185
Payments to suppliers and employees (inclusive of goods and services tax)		(30,959)	(27,936)
Interest and other costs of finance paid		(611)	(414)
Income tax paid		(212)	(207)
Receipts from other income		904	781
Net cash inflow from operating activities	33	686	409
Cash flows from investing activities			
Purchase of property, plant and equipment		(285)	(334)
Purchase of intangible assets		(415)	(313)
Net cash outflow from investing activities		(700)	(647)
Cash flows from financing activities			
Proceeds from borrowings		506	2,085
Repayment of borrowings		(706)	(1,997)
Proceed from issue of shares		-	250
Net cash inflow/(outflow) from financing activities		(200)	338
Net increase/(decrease) in cash and cash equivalents		(214)	100
Cash and cash equivalents at the beginning of the financial year		(105)	(296)
Effects of exchange rate changes on cash and cash equivalents		-	91
Cash and cash equivalents at end of year	9	(319)	(105)

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

Notes to the Financial Statements

For the year ended 30 June 2014

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

Going Concern and funding facilities

During the year ended 30th June 2014 the Group reported a profit after tax of \$0.9m and net positive cash flow from operations of \$0.7m.

The Group has continued with BIBBY Financial Services (Australia) Pty Ltd (BIBBY) during the current financial year as its primary working capital provider. As the facility provided by BIBBY is an invoice financing facility, the availability of funding under the invoice financing facility is dependent upon BIBBY's acceptance of invoices as being available for funding.

During the financial year the Group sought and received additional shareholder loans enabling the Group to commence clearing the backlog of sales orders and restore the profitability of the Group.

As such the Directors have prepared the financial statements on a going-concern basis.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compumedics Limited ("company") as at 30 June 2014 and the results of all subsidiaries for the year then ended. Compumedics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

1. Summary of significant accounting policies (continued)

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries.

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

(c) Operating segments

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

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

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to foreign currency translation reserve. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in profit or loss, as part of the gain or loss on sale where applicable.

1. Summary of significant accounting policies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

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

(i) Sale of goods

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

(ii) Services

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

(f) Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- ▶ When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized

1 Summary of significant accounting policies (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

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

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- ▶ When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable

- ▶ Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(g) Leases

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

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

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows

1. Summary of significant accounting policies (continued)

which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

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

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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

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

(k) Inventories

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

(l) Investments and other financial assets

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

(m) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is

1. Summary of significant accounting policies (continued)

derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives. The expected useful lives for all categories of property, plant and equipment are between 3 and 6 years.

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

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

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

(n) Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense when it is incurred.

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

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is 7 years.

(o) Trade and other payables

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

(p) Borrowings

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

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial

1. Summary of significant accounting policies (continued)

liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(q) Borrowing costs

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

Borrowing costs include:

- Interest on bank overdrafts, other short-term funding facilities and short-term and long-term borrowings,
- Finance lease charges, and
- Bank charges on borrowing facilities.

(r) Provisions

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

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

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

(s) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Share-based payments

Share-based compensation benefits, if applicable, are provided to employees via the Compumedics Employee Option Plan. Information relating to these schemes is set out in note 28.

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

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant

date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

1. Summary of significant accounting policies (continued)

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

(iv) Termination benefits

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

(t) Contributed equity

Ordinary shares are classified as equity.

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

(u) Dividends

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

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) Rounding of amounts

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

(x) Reclassifications

Certain reclassifications have been made in the financial statements to ensure that prior year comparisons confirm to the current year presentations.

(y) New accounting standards and interpretations

The following standards and interpretations have been issued by the AASB but are not yet effective for the year ended 30 June 2014

New/revised pronouncement	Superseeding pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
<p>AASB 9 Financial Instruments (December 2010)</p> <p>[Also refer to AASB 2013-9 and AASB 2014-1 below]</p>	<p>AASB 139 <i>Financial Instruments: Recognition and Measurement</i> (in part)</p>	<p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:</p> <ul style="list-style-type: none"> (a) financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows. (b) allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> • The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and • The remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	<p>1 January 2018</p>	<p>The entity has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018.</p>

New/revised pronouncement	Superseeding pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
		<p>Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:</p> <ul style="list-style-type: none"> • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. <p>AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.</p> <p>Consequential amendments arising from AASB 9 are contained in AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments and AASB 2014-1 <i>Amendments to Australian Accounting Standards</i></p> <p>On 24 July 2014, the IASB issued IFRS 9 Financial Instruments (2014) which marked the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 (2014):</p> <ul style="list-style-type: none"> • added requirements dealing with expected credit losses (impairment) • amended the Standard's classification and measurement requirements by adding a new measurement category of fair value through other comprehensive income for particular simple debt instruments • introduced a new mandatory effective date of accounting periods beginning on or after 1 January 2018 <p>The AASB has already amended the effective date of AASB 9 to '1 January 2018' through its Amending Standard AASB 2014-1 Amendments to Australian Accounting Standards. It is expected that the AASB will issue the remaining amendments arising from IFRS 9 (2014) in the near future.</p> <p>See TA Alert 2009-22, TA Alert 2010-49, TA Alert 2013-13 and TA Alert 2014-09 for further information.</p>		

New/revised pronouncement	Superseeded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	None	AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	When AASB 2012-3 is first adopted for the year ending 30 June 2015, there will be no impact on the entity as this standard merely clarifies existing requirements in AASB 132.
AASB 2013-3 Recoverable Amount Disclosures for Non- Financial Assets	None	<p>These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.</p> <p>When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.</p> <p>AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets.</p>	1 January 2014	When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity given that they are largely of the nature of clarification of existing requirements.
AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	None	AASB 2013-4 makes amendments to AASB 139 Financial Instruments: Recognition & Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity
AASB 1031 Materiality (December 2013)	AASB 1031 Materiality (July 2004, as amended)	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn	1 January 2014	When the revised AASB 1031 is first adopted for the year ending 30 June 2015, it is unlikely to have any significant impact on the entity.
AASB 2013-9 Amendments to	None	Part B of AASB 2013-9 deletes references to AASB 1031 in various Australian Accounting Standards (including	1 January 2014	When these amendments are first adopted for the

New/revised pronouncement	Superseeding pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B: Materiality)		Interpretations).		year ending 30 June 2015, they are unlikely to have any significant impact on the entity.
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)	AASB 139 Financial Instruments: Recognition and Measurement (in part)	<p>These amendments:</p> <ul style="list-style-type: none"> • add a new chapter on hedge accounting to AASB 9 Financial Instruments, substantially overhauling previous accounting requirements in this area; • allow the changes to address the so-called 'own credit' issue that were already included in AASB 9 to be applied in isolation without the need to change any other accounting for financial instruments; and • defer the mandatory effective date of AASB 9 from '1 January 2015' to '1 January 2017'. <p>Note that, subsequent to issuing these amendments, the AASB has issued AASB 2014-1 which defers the effective date of AASB 9 to '1 January 2018'.</p> <p>See TA Alert 2013-13 for further information.</p>	1 January 2015	The entity has not yet assessed the full impact of these amendments.
AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)	None	<p>Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.</p> <p>Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:</p> <ul style="list-style-type: none"> (a) clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and (b) amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in 	1 July 2014	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

New/revised pronouncement	Superseeded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
		<p>applying the aggregation criteria.</p> <p>Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.</p>		
AASB 2014-1 Amendments to Australian Accounting Standards (Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119))	None	<p>Part B of AASB 2014-1 makes amendments to AASB 119 Employee Benefits to incorporate the IASB's practical expedient amendments finalised in International Financial Reporting Standard Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) in relation to the requirements for contributions from employees or third parties that are linked to service.</p> <p>The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 for the gross benefit.</p>	1 July 2014	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.
AASB 2014-1 Amendments to Australian Accounting Standards (Part C: Materiality)	None	Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 Materiality, which historically has been referenced in each Australian Accounting Standard.	1 July 2014	When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.
AASB 2014-1	None	Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 Financial Instruments: Disclosures and AASB 101 Presentation of Financial	1 January 2015	The entity has not yet assessed the full impact of these amendments.

New/revised pronouncement	Superseeded pronouncement	Nature of change	Effective date (annual reporting periods beginning on or after ...)	Likely impact on initial application
		Statements.		
AASB Interpretation 21 Levies	None	<p>Interpretation 21 addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements (in particular, when the entity should recognise a liability to pay a levy).</p> <p>Interpretation 21 is an interpretation of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. AASB 137 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.</p>	1 January 2014	When this interpretation is first adopted for the year ending 30 June 2015, there will be no material impact on the financial statements as the entity is not subject any levies addressed by this interpretation.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

2. Financial risk management

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

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

(a) Market risk*(i) Foreign currency risk*

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

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

The Group does not generally use derivative financial instruments as the Group seeks to offset its revenues and receivables denominated in US dollars and Euro's with expenses and payables in the same currency where it is appropriate to do so. The Group will look to cover specific foreign currency exposures where it is appropriate to do so.

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

	30 June 2014		30 June 2013	
	USD	Euro	USD	Euro
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	581	116	677	209
Trade receivables	4,024	2,131	2,367	248
Financial liabilities				
Bank Loans	-	-	-	-
Trade payables	(1,383)	(985)	(200)	(47)
Net exposure	3,222	1,262	2,844	410

Sensitivity analysis

Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by five percent against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have been \$0.180m higher / \$0.163m lower (2013: \$0.161m higher / \$0.146m lower), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by five percent against the EURO with all other variables held constant, the Group's post-tax profit for the year would have been \$0.095m higher / \$0.086m lower (2013: \$0.030m higher / \$0.027m lower), as a result of foreign exchange gains/losses on translation of EURO dollar denominated financial instruments as detailed in the above table. The Group and parent entity's exposure to other foreign exchange movements is not material. The Group considers a five percent movement in either the US dollar or the Euro appropriate for the purposes of this sensitivity analysis as historically the Australian dollar has moved in a plus or minus five percent band against the US dollar and the Euro in any given recent financial year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

2. Financial risk management (continued)

The parent entity has a current intercompany account receivable with the US business, all of which is considered a net investment in the US legal entity. As such, any exchange gain or loss resulting from the translation into Australian Dollars of the net investment of the inter company account is taken to a foreign currency translation reserve. There is no profit or loss impact from movements in exchange rates relating to this net investment.

The parent entity likewise considers its inter company account with the German business as part of its net investment and again there is no profit or loss impact from movements in exchange rates related to this net investment.

(ii) Interest rate risk

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	30 June 2014		30 June 2013	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Cash and cash equivalents	0.00%	1,054	0.00%	1,292
Bank overdrafts and loans and invoice financing facility	15.14%	2,018	12.67%	2,339

Sensitivity analysis

The Groups overall sensitivity to interest rate movements is, in part, dependent on the underlying profitability of the Group. If the Group delivers profits at the level achieved in the year ended 30 June 2014 then based on 30 June 2014 year end borrowing of \$2.0m a plus or minus 2% movement in interest rates (+/- \$40,000) would not cause a material change in underlying profitability of the Group.

The Group has adopted a policy of borrowing in Australian dollars with Australian banks and/or other financial institutions as it builds its offshore businesses. When appropriate to do so the Group will seek to evolve its borrowing profile such that borrowings are spread across territories in relation to the business undertaken in those territories.

(b) Credit risk

The Group currently sells goods and services primarily to four major geographic regions being:

- Australia and New Zealand (A & NZ)
- United States of America (USA)
- Europe, the Middle East and Africa (EMEA)
- Asia

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

2. Financial risk management (continued)

(b) Credit risk (continued)

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

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

The Group does not hold any credit derivatives to offset its credit exposure. In February 2013 the Company refinanced its working capital needs with BIBBY Financial Services utilizing an invoice financing facility. Details of which can be found at Note 15. These financing activities do not affect this analysis of credit risk summarised here.

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant, despite receivable balances remaining payable beyond terms. The following tables identify accounts receivable at 30 June 2014 and 30 June 2013 identified by debt owed into major region and currency. The aging analysis is presented based on due date of invoice.

Region	Not Due \$'000	1 to 29 Days \$'000	30 Days \$'000	60 Days \$'000	90+ Days \$'000	Total \$'000
2014						
Parent entity (AUD)	765	319	125	8	8	1,225
Parent entity (USD)	858	440	153	218	651	2,320
Parent entity (EURO)	605	36	22	135	219	1,017
US subsidiary (USD)	1,509	407	93	164	84	2,257
German subsidiary (EURO)	1,642	63	55	2	24	1,786
	5,379	1,265	448	527	986	8,605
Provision	-	(3)	-	-	(280)	(283)
2013						
Parent entity (AUD)	544	469	33	9	4	1,059
Parent entity (USD)	936	1,051	27	259	280	2,553
Parent entity (EURO)	71	121	38	(2)	122	350
US subsidiary (USD)	1,442	369	119	10	690	2,630
German subsidiary (EURO)	1,137	132	32	-	230	1,773
	4,372	2,142	249	276	1,326	8,365
Provision	-	(1)	(3)	(39)	(900)	(943)

The table highlights that:

- The collection of cash from the sale of goods and services to direct end user customers as identified by USA (USD) and Parent entity (AUD) accounts receivable usually occurs at or not long after agreed payment terms. Debtors in the 90-day column are 3.7% (2013: 26.2%) and 0.7% (2013: 0.4%) of the total debtors owing in the respective territories. The significant decline in the US 90 day accounts receivable owing relates primarily to better management of the sale, installation and cash collection cycle. The Company does not consider these accounts receivable to be at risk of non-payment.
- The collection of cash from the sale of goods and services to distributors in Europe, the Middle East, Africa and Asia as represented by Parent entity (USD) accounts receivable usually occur well after agreed payment terms. Debtors in the 90-day column are approximately 28.1% (2013: 11.0%) of the total debtors outstanding in the current year. The Company does not consider these accounts receivable to be at risk of non-payment.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

2. Financial risk management (continued)

- The collection of cash from the sale of goods and services in the DWL business, which is primarily via distributors into Europe and Asia typically occurs at or not long after agreed payment terms. Debtors in the 90-day column for DWL represent only 1.4% (2013: 13%) of all debtors owed to this business.

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

(c) Liquidity risk

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

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

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

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

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

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

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

The Group refinanced its existing bank debt in February 2013 with BIBBY Financial Services (Australia) Pty Ltd (BIBBY). As the facility provided by BIBBY is an invoice financing facility this was the maximum available under the facility at that point in time.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

2. Financial risk management (continued)

Details of the Group's financing arrangements can be found at Note 15.

Liquid Financial Assets and Liquid Financial Liabilities

Consolidated	6 months \$000	6-12 months \$000	1-5 years \$000	> 5 years \$000	Total \$000
Year ended 30 June 2014					
Liquid financial assets					
Cash and cash equivalents	1,054	-	-	-	1,054
Trade and other receivables	8,749	-	-	-	8,749
	9,803	-	-	-	9,803
Financial liabilities					
Trade and other payables	4,601	-	-	-	4,601
Interest bearing loans and borrowings	2,018	-	-	-	2,018
	6,619	-	-	-	6,619
Net inflow / (outflow)	3,184	-	-	-	3,184
Year ended 30 June 2013					
Liquid financial assets					
Cash and cash equivalents	1,292	-	-	-	1,292
Trade and other receivables	8,105	-	-	-	8,105
	9,397	-	-	-	9,397
Financial liabilities					
Trade and other payables	4,600	-	-	-	4,600
Interest bearing loans and borrowings	2,132	207	-	-	2,339
	6,732	207	-	-	6,939
Net inflow / (outflow)	2,665	(207)	-	-	2,458

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

3. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(i) *Deferred revenues*

In calculating the Group's deferred revenues at any point in time the Group makes a judgement regarding the revenues to be deferred to future periods in respect of future installations and training obligations.

The Group reviews its current cost for installation and training as a percentage of current revenues in determining an appropriate future cost for installation and training obligations that are still to be performed. The Group also reviews its installation and training fees as a percentage of total revenue associated with the purchase of the goods to be installed. Based on current installation and training costs and installation and training fees, as an estimate for future installation and training costs and installation and training fees, 12% (deferral rate) of the total dollar value of all current sales where a future installation and training obligation exists, is deferred until such time as the future installation and training obligations have been extinguished.

(ii) *Inventory*

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

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

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

(iii) *Trade receivables*

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

The estimate is based on many factors including:

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

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

(iv) *Recoverability of capitalised development costs*

The Group did capitalise additional costs of \$0.2m (2013: \$0.3m) related to the development of the Multi DopX product in the DWL (German) business and the SPAP product. Prior year capitalisations were also related to the SPAP product (\$0.3m). The recoverability of these costs is dependant on the commercial success of both these products, which form the basis of the net present value calculations, so that it will generate future economic benefits in excess of the costs capitalised and therefore supports the carrying value of the assets. The group continued amortisation of these costs in the 2014 financial year with a \$0.8m (2013: \$0.9m) charge to profit or loss in the current year.

Notes to the Financial Statements (continued)**For the year ended 30 June 2014****(v) Deferred tax asset**

The Company does not book a deferred tax asset related to the future benefit of carry forward tax losses, as well as a net deferred tax asset relating to timing differences. The Company believes, at this point in time, whilst it is likely the deferred tax asset is recoverable, given the restoration of profits in the current financial year it is appropriate to not book a deferred tax asset at this time. This will be reviewed again at 31 December 2014 and then 30 June 2015.

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

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

Inter-entity sales

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

Corporate charges

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

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

(b) Description of segments**Identification of reportable segments**

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

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

Notes to the Financial Statements (continued)**For the year ended 30 June 2014****4. Operating Segments (continued)****Geographic locations***America's*

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

Australia and Asia Pacific

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

Europe and the Middle East

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

Major Customers

The Group does not have any individual customer that contributes 10% or more to Group revenues in the years ended 30 June 2014 or 30 June 2013.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

4. Operating Segments (continued)

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

2014	USA	Australia and Asia Pacific	Europe	Group
	\$'000	\$'000	\$'000	\$'000
Revenue				
Sales to external customers	9,523	11,808	9,510	30,841
Intersegment sales	610	1,719	95	2,424
Other intersegment revenue	-	91	1,100	1,191
Total segment revenue	10,133	13,618	10,705	34,456
Intersegment elimination	(610)	(1,810)	(1,195)	(3,615)
Total revenue	9,523	11,808	9,510	30,841
Segment Result	(775)	1,775	1,101	2,101
Other income				901
Depreciation and amortisation				(1,419)
Net interest expense				(611)
Net Profit before income tax per the Statement of Profit or Loss and Other Comprehensive Income				972
Segment Assets	3,166	29,092	5,665	37,923
Intersegment elimination	(10)	(18,327)	(64)	(18,401)
Total assets per the Statement of Financial Position	3,155	10,765	5,600	19,522
Acquisition of property plant & equipment	17	51	168	236

Sales within Australia for 2014 were \$5.3m

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

4. Operating Segments (continued)

2013	USA \$'000	Australia and Asia Pacific \$'000	Europe \$'000	Group \$'000
Revenue				
Sales to external customers	7,774	11,087	8,289	27,150
Intersegment sales	915	1,533	184	2,632
Other intersegment revenue	-	77	1,594	1,671
Total segment revenue	8,689	12,697	10,067	31,453
Intersegment elimination	(915)	(1,610)	(1,778)	(4,303)
Total revenue	7,774	11,087	8,289	27,150
Segment Result	(2,255)	888	928	(439)
Other income				781
Depreciation and amortisation				(1,210)
Net interest expense				(414)
Net loss before income tax per the Statement of Profit or Loss and Other Comprehensive Income				(1,282)
Segment Assets	2,898	28,104	4,981	35,983
Intersegment elimination	(35)	(16,831)	(30)	(16,896)
Total assets per the Statement of Financial Position	2,863	11,273	4,951	19,087
Acquisition of property plant & equipment	13	10	311	334

Sales within Australia for 2013 were \$5.4m

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

5. Revenue

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	28,167	24,816
Services	2,674	2,334
	30,841	27,150

6. Other income

Other income	901	781
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Other income relates to sub-lease rental income in Melbourne and other items not directly related to the main operating activities of the Company.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

7. Expenses

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	314	320
Total depreciation	314	320
<i>Amortisation</i>		
Intangible asset	1,072	890
<i>Finance costs</i>		
Interest and finance charges paid/payable	611	414
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	684	626
<i>Foreign exchange (gains) and losses (a)</i>	(19)	(159)
<i>Employee benefits</i>		
Payroll expense including leave payments	12,059	11,144
Superannuation entitlements	555	535
	12,614	11,679
Research and development expenditure	5,158	4,369
Current receivables – movement in impairment provision	(660)	53
Inventory – write down / (recovery):	168	(208)

(a) Foreign exchange gains and losses

Net foreign exchange gains of \$0.019m (2013: \$0.159m) were primarily related to trading transactions and included in Administration and Research and Development expense lines.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

8. Income tax expense / (benefit)

	Consolidated	
	2014	2013
	\$'000	\$'000
(a) Income tax expense		
Current income tax charge	63	81
Prior year assessment – German tax authority	-	126
Deferred income tax	-	-
Income tax reported in the statement of profit or loss and other comprehensive income	63	207
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (Loss) before income tax expense as reported in the statement of profit or loss and other comprehensive income	972	(1,282)
Profit/(Loss) before income tax subject to Australian income tax	972	(1,282)
Tax (benefit) at the Australian tax rate of 30% (2013 - 30%)	292	(385)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenses	4	6
Research and development	(346)	(266)
Prior year assessment – German tax authority	-	126
Deferred tax asset not brought to account	113	726
Income tax expense reported in the statement of profit or loss and other comprehensive income	63	207
(c) Provision for income tax – current		
Estimated income tax payable in Compumedics Germany GmbH	39	182

At balance date the Company estimates there is a deferred tax liability of \$0.9m (2013 \$1.1m), related to the intangible assets, which has been fully offset by the deferred tax asset in relation to tax losses in Australia not recognised, with a value of \$2.4m (2013 \$1.0m). In addition, the Company estimates a deferred tax asset exists in relation to tax losses in the USA of \$3.5m (2013 \$2.8m), which is not recognised.

The benefit of tax losses will be obtained if:

- (i) the Group derived future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised,
- (ii) the Group continued to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no change in tax legislation adversely affected the Group in realising the benefit from the deductions for the loss.

(d) Tax consolidation legislation

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

9. Current assets – Cash and cash equivalents

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash at bank and in hand	1,054	1,292

Included in cash on hand is restricted cash amounting to \$0.2m. This relates to security for the rental bond on the offices the Company occupies in Melbourne and for security regarding the corporate credit cards used in the US.

Reconciliation to Statement of Cash Flows

For the purposes of the statement of cash flow, cash and cash equivalents comprise the following at 30 June

Cash at bank and in hand	1,054	1,292
Bank overdrafts / invoice financing facility (note 15)	(1,373)	(1,397)
Balances per Statement of Cash Flows	(319)	(105)

10. Current assets – Trade and other receivables

	Consolidated	
	2014	2013
	\$'000	\$'000
Trade receivables	8,605	8,365
Allowance for impairment loss (a)	(283)	(943)
	8,322	7,422
Other receivables/prepayments	427	669
Related party receivables:		
Loans to key management personnel	-	14
	8,749	8,105

(a) Movements in the provision for impairment loss were as follows:

At 1 July	943	890
Provision for impairment recognised during the year	56	538
Receivables written off during the year as uncollectible	(716)	(485)
	283	943

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

10. Current assets – Trade and other receivables (continued)**Past due but not impaired**

As of 30 June 2014, trade receivables of \$2,942,394 (2013 - \$3.049m) were past due but not impaired. These relate to a number of independent customers and distributors for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Up to 3 months	2,235	2,665
3 to 6 months	456	105
Over 6 months	251	279
	2,942	3,049

Fair value and credit risk

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

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

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

11. Current assets - Inventories

The provision for stock obsolescence was increased during the year ended 30 June 2014 by \$0.2m as a result of the Group recognising provision against specific inventory items. These activities have led the Group to adjust the provision for stock obsolescence to reflect the recoverable value of the inventory on hand at 30 June 2014.

	Consolidated	
	2014	2013
	\$'000	\$'000
Raw materials and stores (at cost)	4,653	4,448
Work in progress (at cost)	857	719
Finished goods (at net realisable value)	2,772	2,300
Provision for obsolescence	(2,137)	(1,969)
Total inventories at the lower of cost and net realisable value	6,145	5,498

(a) Inventory expense

Inventories recognised as an expense during the year ended 30 June 2014 amounted to \$9,411,664 (2013: \$9,808,600).

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

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

Consolidated	Plant and Equipment At Cost \$'000	Office Equipment At Cost \$'000	Motor Vehicle \$'000	Leasehold Improvements \$'000	Plant and Equipment Leased \$'000	Office Equipment Leased \$'000	Total \$'000
Year ended 30 June 2013							
Opening net book amount	154	564	37	-	-	-	755
Additions	194	140	-	-	-	-	334
Exchange differences	6	51	-	-	-	-	57
Disposals	-	(88)	-	-	-	-	(88)
Depreciation/amortisation expense	(72)	(245)	(3)	(0)	-	-	(320)
At 30 June 2013	282	422	34	-	-	-	738
At 30 June 2013							
Cost or fair value	1,239	4,194	228	585	430	571	7,247
Accumulated depreciation	(957)	(3,772)	(194)	(585)	(430)	(571)	(6,509)
Net carrying amount	282	422	34	-	-	-	738
Year ended 30 June 2014							
Opening net book amount	282	422	34	-	-	-	738
Additions	20	216	-	-	-	-	236
Exchange differences	7	9	-	-	-	-	16
Disposals	-	(4)	-	-	-	-	(4)
Depreciation/amortisation expense	(72)	(241)	(1)	-	-	-	(314)
At 30 June 2014	237	402	33	-	-	-	672
At 30 June 2014							
Cost or fair value	1,259	4,406	228	585	430	571	7,479
Accumulated depreciation	(1,022)	(4,004)	(195)	(585)	(430)	(571)	(6,807)
Net carrying amount	237	402	33	-	-	-	672
Useful life (years)	6	3	3	-	6	3	

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

13. Non-current assets - Intangible assets

Consolidated	Development costs \$'000	Total \$'000
Year ended 30 June 2013		
At 1 July 2012	4,031	4,031
Additions	313	313
Impairment charge	-	-
Amortisation charge	(890)	(890)
At 30 June 2013	3,454	3,454
At 30 June 2013		
Cost*	5,939	5,939
Accumulated amortisation** and impairment	(2,485)	(2,485)
Net carrying amount	3,454	3,454
Year ended 30 June 2014		
At 1 July 2013	3,454	3,454
Additions	581	581
Impairment charge	-	-
Amortisation charge	(1,133)	(1,133)
At 30 June 2014	2,902	2,902
At 30 June 2014		
Cost*	6,520	6,520
Accumulated amortisation** and impairment	(3,618)	(3,618)
Net carrying amount	2,902	2,902

* Relates to capitalised development costs being an internally generated intangible asset

** Amortisation of \$1,072,000, (2013 - \$890,366) is included in depreciation and amortisation expense in profit or loss. The remaining amortisation period for the SPAP sleep-treatment device (Net Carrying Amount is approximately \$2.4m at 30th June 2014) is approximately 2.5 years.

14. Current liabilities - Trade and other payables

	Consolidated	
	2014 \$'000	2013 \$'000
Trade payables	3,353	3,248
Other payables	1,248	1,352
	4,601	4,600

(a) Foreign currency risk

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

15. Current Liabilities - Borrowings

	Consolidated	
	2014	2013
	\$'000	\$'000
Secured		
Invoice financing facility (BIBBY)	1,373	1,397
Other loans (BIBBY)	-	400
Unsecured		
Other loans	606	457
Lease liabilities (note 27)	39	85
Total Current Borrowings	2,018	2,339

Bank and Other Funding Facilities

The Company utilises an invoice finance facility provided by BIBBY Financial Services (Australia) Pty Ltd. The facility has a limit of \$2.0m and is dependent on the volume and type of invoices presented on an on-going basis in order to fully utilise the facility limit. The Company has transactional banking facilities and credit cards with National Australia Bank.

(a) Risk exposures

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

(b) Fair value disclosures

No borrowings are readily traded on organised markets.

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

(c) Assets pledged as security and not derecognised in the Statement of Financial Position

The total secured liabilities are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Invoice financing and other loans	1,373	1,797
Lease liabilities – current	39	85
Total secured liabilities	1,412	1,882
Assets specifically secured against the invoice financing facility and not derecognised for reporting purposes	6,638	5,858

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

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

The Group has utilised an invoice-financing facility, provided by BIBBY Financial Services (Australia) Pty Ltd (BIBBY), as its main source of working capital finance. The funding provided by BIBBY under this facility is specifically secured against individual invoices presented by the Group from time to time. Under that facility the Company maintains the risks associated with account receivable due to the Company, but is obliged to provide those funds to BIBBY where BIBBY have advanced funds against the invoice. As such the Group continues to recognise accounts receivable to it and to separately disclose funds owed to BIBBY.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

15. Current Liabilities – Borrowings (continued)

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

		Consolidated	
	Notes	2014 \$'000	2013 \$'000
Current			
<i>Floating charge</i>			
Cash and cash equivalents	9	1,054	1,292
Receivables	10	8,749	8,105
Inventories	11	6,145	5,498
Total current assets pledged as security		15,948	14,895
Non-current			
<i>Floating charge</i>			
Property, plant and equipment	12	672	738
Total non-current assets pledged as security		672	738
Total assets pledged as security		16,620	15,633

(d) Forward exchange contracts

As at 30 June 2014 and 30 June 2013 there were no outstanding forward exchange contracts.

(e) Financing arrangements

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

	Consolidated	
	2014 \$'000	2013 \$'000
Credit standby arrangements		
Total facility		
Invoice financing facility	2,000	2,100
Commercial debtors	-	-
Fixed term borrowings	606	857
	2,606	2,957
Used at reporting date		
Invoice financing facility	1,373	1,397
Commercial debtors	-	-
Fixed term borrowings	606	857
	1,979	2,254
Unused at reporting date		
Invoice financing facility	627	703
Commercial debtors	-	-
Fixed term borrowings	-	-
	627	703
Loan / funding facilities		
Total facilities	2,606	2,957
Used at reporting date	1,979	2,254
Unused at reporting date	627	703

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

15. Current Liabilities – Borrowings (continued)

The Group had funding facilities totalling \$2.6million (including short-term shareholder loans of \$0.606m) at 30 June 2014. Access to the invoice financing facility is dependent on the volume and type of invoices presented such that the amount accessible is less than the facility limit.

(f) Derivative instruments

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

16. Current liabilities - Provisions

	Consolidated	
	2014	2013
	\$'000	\$'000
Employee benefits	1,958	1,795
Service warranties (note 16(a))	352	344
	2,310	2,139

(a) Service warranties

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

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

(b) Movements in provisions

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

	Service warranties
	\$'000
Current	
Carrying amount at start of year	344
Charged/(credited) to profit or loss	
- additional provisions recognised	47
- unused amounts reversed	-
Carrying amount at end of year	391

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

17. Current liabilities - Deferred income

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Deferred income	1,276	1,321

Deferred income relates to service contracts yet to be performed and post sale installation and training obligations yet to be completed pursuant to the Group's accounting policies as detailed in Note 1 Summary of significant accounting policies, (e)(ii) Revenue recognition and Note 3 Critical accounting estimates and judgements, (a)(i) Deferred Revenues.

18. Non-current liabilities - Borrowings

	Consolidated	
	2014	2013
	\$'000	\$'000
Secured		
Lease liabilities (note 27)	-	-

(a) Foreign currency and interest rate risk

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

19. Non-current liabilities – Provisions

	Consolidated	
	2014	2013
	\$'000	\$'000
Employee benefits	31	27

20. Non-current liabilities - Deferred income

	Consolidated	
	2014	2013
	\$'000	\$'000
Deferred income	85	126

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

21. Contributed equity

	Consolidated		Consolidated	
	2014	2013	2014	2013
	Shares	Shares	\$'000	\$'000
(a) Share capital				
Ordinary shares				
Fully paid	166,885,170	166,885,170	31,269	31,269

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
30 June 2012	Balance	161,983,209		31,019
7 June 2013	New ordinary shares issued	4,901,961	5.1 cents	250
30 June 2013	Balance	166,885,170		31,269
30 June 2014	Balance	166,885,170		31,269

(c) Ordinary shares

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

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

The ordinary shares have no par value.

(d) Other equity securities

There are no other equity securities issued at this time.

(e) Capital management

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

21. Contributed equity (continued)**(e) Capital management (continued)**

	Consolidated	
	2014	2013
	\$'000	\$'000
Total borrowings	2,018	2,339
Less cash and cash equivalents	1,054	1,292
Net debt	964	1,047
Total equity	9,162	8,353
Total funding	10,126	9,400
Gearing ratio	9.5%	11.1%

22. Reserves and accumulated losses

	Consolidated	
	2014	2013
	\$'000	\$'000
(a) Reserves		
Foreign currency translation reserve	(695)	(595)
	(695)	(595)

(b) Accumulated losses

Movements in accumulated losses were as follows:

Balance 1 July	(22,321)	(20,832)
Net profit / (loss) for the year	909	(1,489)
Balance 30 June	(21,412)	(22,321)

(c) Other Reserves

	Consolidated
	Foreign currency translations \$'000
Balance as at 1 July 2012	(972)
Exchange difference on translation of foreign operation	377
At 30 June 2013	(595)
Exchange difference on translation of foreign operation	(100)
At 30 June 2014	(695)

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

22. Reserves and accumulated losses (continued)**(d) Nature and purpose of reserves****Foreign currency translation reserve**

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

23. Dividends**Ordinary shares**

The directors have not declared a dividend in the current financial year (2013: Nil).

24. Key management personnel disclosures**(a) Directors**

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

- (i) *Chairman and Executive director*
Dr David Burton, Chief Executive Officer
- (ii) *Executive Director and Chief Financial Officer*
Mr David Lawson
- (iii) *Non-executive director*
Mr Alan Anderson

(b) Other key management personnel

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

Name	Position	Employer
Warwick Freeman [^]	Chief Technology Officer	Compumedics Limited
Kerry Hubick [^]	Legal Counsel & Patent Attorney	Compumedics Limited
Christoph Witte [^]	Managing Director, DWL	Compumedics Germany GmbH

[^] The above persons were also key management persons during the year ended 30 June 2013.

(c) Key management personnel compensation

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	1,162,795	1,167,367
Post-employment benefits	79,537	77,208
Long-term benefits	11,859	11,765
Share-based payments	-	-
	1,254,191	1,256,340

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

24. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Option holdings

There were no options provided as remuneration during the current or prior year. No options over ordinary shares were held by KMP's at 30 June 2014 and 30 June 2013.

(ii) Share holdings

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

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year*	Balance at the end of the year
2014				
Directors of Compumedics Limited				
Ordinary shares				
David Burton and/or associated entities	100,822,097	-	-	100,822,097
Alan Anderson	89,655	-	-	89,655
David Lawson	4,346,650	-	-	4,346,650
Other key management personnel of the Group				
Ordinary shares				
Warwick Freeman	82,000	-	-	82,000
Kerry Hubick	1,180,065	-	-	1,180,065
Christoph Witte	-	-	-	-
2013				
Directors of Compumedics Limited				
Ordinary shares				
David Burton and/or associated entities	100,822,097	-	-	100,822,097
Dr. Graham Mitchell*	-	-	-	-
Alan Anderson	89,655	-	-	89,655
Other key management personnel of the Group				
Ordinary shares				
David Lawson	4,346,650	-	-	4,346,650
Warwick Freeman	82,000	-	-	82,000
Kerry Hubick	1,180,065	-	-	1,180,065
Christoph Witte	-	-	-	-

* Dr. Graham Mitchell retired as a Director of the Company at the Annual General Meeting, held in October 2013.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

24. Key management personnel disclosures (continued)-**(e) Other transactions with key management personnel**

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

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

A Director, Alan Anderson, is a partner in the American legal firm of Alan Anderson Legal Firm, prior to this he was a partner of Briggs & Morgan. This firm is based in the US and has provided legal services to Compumedics Limited and certain of its controlled entities during the year on normal commercial terms and conditions.

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

	2014 \$	2013 \$
Amounts recognised as expense		
Legal fees	6,438	6,773

There is a \$107k loan from A. Anderson, a Director of the Company, to the Company. The loan is repayable in 12 months from its inception on 7 June 2013 and carries interest payable at the rate of 15% pa paid quarterly. The loan has subsequently been extended by a further twelve months and is now repayable on 7 June 2015. The loan is not secured.

25. Remuneration of auditors

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

	Consolidated 2014 \$	2013 \$
(a) Audit services		
Hayes Knight Audit firm (Ernst & Young in 2013)		
Audit and review of financial reports under the Corporations Act 2001	110,000	179,000
Total remuneration for audit services	110,000	179,000
(b) Non-audit services		
Taxation services		
Tax compliance services	12,500	55,495
Total remuneration for taxation services	12,500	55,495
	122,500	234,495

26. Contingencies**(a) Contingent liabilities**

Consolidated entity had no contingent liabilities at 30 June 2014 (2013: None).

(b) Contingent assets

Consolidated entity had no contingent assets at 30 June 2014 (2013: None).

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

27. Commitments*(i) Operating leases*

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

	Consolidated	
	2014	2013
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	732	874
Later than one year but not later than five years	557	472
Commitments not recognised in the financial statements	1,289	1,346

Other leases

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of rental properties

39	125
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The Group has finance leases for motor vehicles with a carrying amount of \$NIL (2013 \$8K). These leases expire within one year.

(ii) Finance leases

Within one year	39	85
After one year but not more than five years	-	-
Total minimum lease payments	39	85

28. Share-based payments**(a) Employee Option Plan**

The Group did not have any share-based payments in the full year ended 30 June 2014.

29. Related party transactions**(a) Parent entities**

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key management personnel

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

29. Related party transactions (continued)**(d) Transactions with related parties**

Transactions between Compumedics Limited and other entities in the wholly owned group during and as at the years ended 30 June 2014 and 2013 consisted of:

	Consolidated	
	2014	2013
	\$	\$
Purchase of legal services from Alan Anderson Law Firm	6,438	6,773
Licence fee for a non-exclusive licence for certain intellectual property (the Licenced Rights) to D & DJ Burton Holdings Pty Ltd, an entity related to D Burton	252,821	252,821

A Director, Alan Anderson, is a partner in the American legal firm of Alan Anderson Legal Firm; prior to this he was a partner of Briggs & Morgan.

The Chairman and CEO fees are paid to D&DJ Burton Holdings Pty Ltd.

(e) Loans to/from related parties

There is a \$107k loan from A. Anderson to the Company. The loan is repayable in 12 months from its inception on 7 June 2013 and carries interest payable at the rate of 15% pa paid quarterly. The loan has subsequently been extended by a further twelve months and is now repayable on 7 June 2015. The loan is not secured. There are two other loans with shareholders but neither shareholder is a significant shareholder of the Company.

(f) Guarantees

No guarantees have been given or received from related parties.

(g) Terms and conditions

All transactions between related parties were made on normal commercial terms and conditions and at market rates.

30. Parent Entity Information

	2014	2013
	\$'000	\$'000
Information relating to Compumedics Limited:		
Current assets	8,302	8,041
Total assets	11,138	11,665
Current liabilities	6,014	6,403
Total liabilities	6,045	6,430
Contributed Equity	31,269	31,269
Reserves	-	-
Accumulated losses	(26,176)	(26,034)
Total shareholders equity	5,093	5,235
Profit or loss of the parent entity	1,776	(368)
Total comprehensive income (loss) of the parent entity	(142)	(201)

Notes to the Financial Statements (continued)**For the year ended 30 June 2014**

The invoice-financing facilities are secured by a Corporate Guarantee and Indemnity unlimited as to amount and a Mortgage Debenture over all the assets and undertaking of the parent entity, Compumedics Limited and its subsidiaries. Further details are at Note 15.

31. Subsidiaries

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

	Country of incorporation	Class of shares	Equity holding 2014 %	2013 %
Compumedics Telemed Pty Ltd.	Australia	Ordinary	100	100
Compumedics Medical Innovation Pty Ltd.	Australia	Ordinary	100	100
Compumedics Cardiology Pty Ltd.	Australia	Ordinary	100	100
Compumedics USA Inc.	USA	Ordinary	100	100
Compumedics Singapore Pte Ltd.	Singapore	Ordinary	100	100
Compumedics USA Ltd. (formerly Neuroscan Ltd.)	USA	Ordinary	100	100
Compumedics Germany GmbH.	Germany	Ordinary	100	100
Cardio Sleep Services Inc.	USA	Ordinary	100	100
Compumedics France SAS	France	Ordinary	100	100

32. Events occurring after the reporting date

The Company is not aware of any events occurring after balance date which would materially alter the information presented here.

33. Reconciliation of loss after income tax to net cash inflow from operating activities

	Consolidated 2014 \$	2013 \$
Profit/(loss) for the year	909	(1,489)
Depreciation and amortisation	1,419	1,210
Net exchange differences	(453)	484
Change in operating assets and liabilities		
(Increase) decrease in receivables	(446)	596
(Increase) decrease in inventories	(647)	(209)
Increase (decrease) in trade payables	1	(309)
Increase (decrease) in deferred revenues	5	29
Increase (decrease) in tax provisions	(143)	(4)
Increase (decrease) in other provisions	84	101
Net cash inflow (outflow) from operating activities	729	409

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

34. Profit / (Loss) per share

	Consolidated	
	2014	2013
	Cents	Cents
(a) Basic profit / (loss) per share –cents per share		
Profit/(Loss) attributable to the ordinary equity holders of the company	0.54	(0.91)
(b) Diluted profit / (loss) per share		
Profit/(Loss) attributable to the ordinary equity holders of the company	0.54	(0.91)
(c) Reconciliations of profit/(loss) used in calculating earnings per share		
	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Basic profit/(loss) per share</i>		
Profit / (Loss)	909	(1,489)
<i>Diluted profit/(loss) per share</i>		
Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating diluted loss per share	909	(1,489)
Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating diluted loss per share	909	(1,489)
(d) Weighted average number of shares used as the denominator		
	Consolidated	
	2014	2013
	Number	Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic loss per share</i>	166,885,170	162,735,889
Adjustments for calculation of diluted loss per share:		
Convertible loan	-	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share</i>	166,885,170	162,735,889

(e) Information concerning the classification of securities*(i) Convertible loan*

During the period the Company sought and obtained funding from shareholders as part of meeting its working capital requirements. One hundred and fifty thousand dollars (\$150,000) of shareholder loans are convertible into ordinary shares of the Company, at the discretion of the shareholder, when the loan is due for repayment.. Based on the agreed exercise price of the conversion of the loan into ordinary shares of the Company, an additional 1,944,444 ordinary shares could be issued to satisfy repayment of the loan and as such have been disclosed here.

There are no other outstanding options or other instruments convertible into ordinary shares of the Company at the date of this report.

Directors' Declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 22 to 70 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2014 and of their performance for the financial year ended on that date; and
 - (iii) complying with the International Financial Reporting Standards as disclosed in note 1, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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



David Burton
Director

Melbourne
24 September 2014



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Independent Auditor's Report to the Members of Compumedics Limited

Report on the Financial Report

We have audited the accompanying financial report of Compumedics Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Independent Auditor's Report to the Members of Compumedics Limited

Opinion

In our opinion:

- (a) the financial report of Compumedics Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the consolidated financial statements and notes also comply 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 2014. 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.

Opinion

In our opinion, the Remuneration Report of Compumedics Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Hayes Knight Audit
Hayes Knight Audit Pty Ltd
Melbourne


Geoff S. Parker
Director

Dated this 24 day of

SEPTEMBER

2014

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is at 10 September 2014.

A. Distribution of equity securities

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

		Class of equity security					
		Ordinary shares	Number held	Options	Number held	Redeemable Convertible notes	Number held
100,001	and over	87	154,705,858	-	-	-	-
10,001	- 100,000	269	9,498,778	-	-	-	-
5,001	- 10,000	179	1,507,437	-	-	-	-
1,001	- 5,000	333	1,119,148	-	-	-	-
1	- 1,000	77	53,949	-	-	-	-
		945	166,885,170	-	-	-	-

There were 337 holders of less than a marketable parcel of ordinary shares and they hold 812,302 ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
D & DJ Burton Holdings Pty Ltd		59.19
Teijin Pharma Limited		4.97
Armco Barriers Pty Ltd		3.60
Beijing Bestmed Tech. LTD		2.94
Medigas Italia S.R.L		2.60
Lawson Callinan Super A/C		1.49
Electro Molecular Pty Ltd		1.22
Mr David Francis Lawson		1.12
Citicorp Nominees Pty Limited		1.10
Canucki Pty Ltd		0.71
Benger Superannuation Pty Limited		0.60
Mr Jamie Van Netten		0.60
Go Go Marketing Pty Ltd		0.43
Mr Norman Mayne		0.42
Mr Bernard Knowler		0.40
Mr Philip Alexander Steel		0.34
Southam Investments 2003 Pty Ltd		0.33
Mr Edward James Stephen Dally & Mrs Selina Dally		0.33
Mr Mark David Holder		0.33
Holder Super Pty Ltd		0.32
	138,546,836	83.02

Unquoted equity securities

There are no unquoted equity securities on issue

-

-

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
D & DJ Burton Holdings Pty Ltd	100,822,097	60.41 %

D. Voting rights

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

- (a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Convertible redeemable notes
No voting rights.
- (c) Options
No voting rights.

TECHNOLOGY

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