

## **ANNUAL REPORT 2010**



**Holdings Limited  
and Controlled Entities**

**QRSciences Holdings Limited**

**ABN 27 009 259 876**

**QRSciences Holdings Limited and Controlled Entities**  
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**CORPORATE GOVERNANCE STATEMENT**

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2010.

**Board of Directors and Corporate Governance**

The Board of QRSciences Holdings Limited is responsible for ensuring the existence of an effective corporate governance environment to safeguard the interests of the Company and its shareholders. This statement outlines the main corporate governance practices that were in place during the year ended 30 June 2010.

**Composition of the Board**

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

QRSciences Holdings Limited acknowledges that it does not have any women on its board, but is in the process of searching for non-executive directors.

<b>Name</b>	<b>Role</b>	<b>Non-Executive</b>	<b>Independent</b>
Mr Rick Stokes	Chief Executive Officer	No	No
Mr Douglas Potter	Director	Yes	No
Mr Robert Halverson	Non-Executive Director	Yes	Yes

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

Directors of QRS Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangement governing it and other factors that point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of the independence above, and the materiality threshold set, the following directors of QRSciences Holdings Ltd are considered to be independent:

<b>Name</b>	<b>Position</b>
Mr Robert Halverson	Non-executive Director

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

<b>Name</b>	<b>Position</b>
R Stokes	CEO/Director - Executive Service Agreement
D Potter	Directorship is tied to Helmsman maintaining a stake in QRS equal or greater than 20%
R Halverson	No Contract

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Due to changes to the composition of the Board, the Board is no longer comprised of a majority of independent directors, which is a departure from ASX Corporate Governance Council best practice recommendation 2.1. The Board considers its current composition is the most appropriate blend of skills and expertise, relevant to the Company's business. The Board will review this on an on-going basis.

**Nomination Committee**

The Company has not assigned a Nomination Committee, which is a departure from ASX Corporate Governance Council best practice recommendation 2.4. The full Board is responsible for establishing criteria for Board membership, reviewing Board membership and nominating Directors for appointment to the Board. Candidates are initially appointed by the Board and must stand for election at the next general meeting of shareholders.

Directors are selected on the basis of qualification, skills and experience, and are subject to retirement by rotation in accordance with the Company's constitution.

**Independent Professional Advice**

Directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as Directors. Approval must be obtained from the chairman prior to incurring any such expense on behalf of the Company.

**Identifying and Managing Business Risks**

The Board regularly monitors the operational and financial performance of the Company and economic entity, and also reviews and (where necessary) receives independent external advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

**Trading Policy**

The Company's securities trading policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from trading on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices. In particular:

The Company:

Must comply with the requirements of the ASX Listing Rules and Corporations Act 2001;

Must receive prior notification from directors, officers, employees and contractors of their intention to deal in the Company's securities; and

Prohibits short term trading by directors, officers, employees and contractors in the Company's securities.

The Policy is as follows:

"Directors, Officers and employees of the Company should not trade in the Company's securities when he or she is in possession of price sensitive information that is not generally available to the market."

Directors and senior management are likely to be in possession of unpublished price sensitive information concerning the Company by virtue of their position within the Company. Therefore those persons are restricted from dealing in the Company's securities in the first business day following the release of price sensitive information to the ASX.

In addition, Directors, officers and employees can only deal in the Company's securities after having first obtained permission of the Managing Director or the Chairman and must notify the Company Secretary when a trade has occurred.

This Policy does not restrict purchase of securities under the Company's Deferred Directors Salary Sacrifice Share Purchase Plan which is subject to a monthly standing order placed to acquire securities.

**Audit Committee**

The Audit Committee is responsible for the nomination of the external auditors, and for reviewing the adequacy of existing external audit arrangements, including the scope and quality of the audit. The members of the Audit Committee are Mr D Potter and Mr R Halverson.

Mr Potter is not a non-executive director of the Company, which is a departure from ASX Corporate Governance Council best practice recommendation 4.3. The Board considers the current composition of the Audit

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Committee is the most appropriate blend of skills and expertise, relevant to the Company's business. The Company will review the composition of the Audit Committee on an on-going basis.

For qualifications of Audit Committee members and details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Director's Report.

**Remuneration**

The Remuneration Committee of the Board is responsible for reviewing and approving the remuneration packages, if any, and policies applicable to the Directors and the Executive Chairman. This responsibility extends to share option schemes and incentive performance packages.

Executives and staff are also entitled to participate in the employee share and option arrangements.

The remuneration package of each Executive Director and Executive includes a performance based component.

A more detailed explanation of the Company's remuneration policies and framework, performance based remuneration, and the amount of remuneration for all Directors (including non-executive Directors) and other key management personnel including all monetary and non-monetary components, are detailed in the *Remuneration Report*.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price on the date of issue and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology. There are no retirement benefits for Non-Executive Directors.

The Board has a remuneration structure that will result in the Company attracting and retaining the best people to run the business. As part of this strategy it will also provide Executives with the necessary incentives to work to grow long term shareholder value. The policy complies with the four key principles of IFSA Guidance Note 02-16.

For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Director's Report.

**Ethical Standards**

All Directors are expected to act with the utmost integrity and objectivity in the performance of their duties, striving at all times to enhance the reputation and performance of the Company.

**THE ROLE OF SHAREHOLDERS**

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law.
- Half-year financial statements prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 and subject to an audit review are lodged with the Australian Securities and Investments Commission and Australian Stock Exchange Limited.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as resolutions. The shareholders are responsible for voting on the appointment of Directors.

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**Other**

The best practice recommendations of the ASX Corporate Governance Council require the Company to formalise and make publicly available (preferably on its website) a number of different charters and policies.

Subject to the exceptions outlined below, the Company will adopt the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments released in 2007 ("Recommendations") to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Company's compliance with Recommendations is summarised in the table below:

	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>		ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1	Yes		Recommendation 4.2	No	Yes
Recommendation 1.2	Yes		Recommendation 4.3	Yes	
Recommendation 1.3	Yes		Recommendation 4.4	Yes	
Recommendation 2.1	No	Yes	Recommendation 5.1	Yes	
Recommendation 2.2	Yes		Recommendation 5.2	Yes	
Recommendation 2.3	No	Yes	Recommendation 6.1	Yes	
Recommendation 2.4	No	Yes	Recommendation 6.2	Yes	
Recommendation 2.5	Yes		Recommendation 7.1	Yes	
Recommendation 2.6	Yes		Recommendation 7.2	No	Yes
Recommendation 3.1	Yes		Recommendation 7.3	Yes	
Recommendation 3.2	Yes		Recommendation 7.4	Yes	
Recommendation 3.3	Yes		Recommendation 8.1	Yes	
Recommendation 3.4	Yes		Recommendation 8.2	Yes	
Recommendation 3.5	Yes		Recommendation 8.3	Yes	
Recommendation 4.1	Yes		Recommendation 8.4	Yes	

<sup>1</sup> Indicates where the Company has followed the Recommendations and summarised those practices below.

<sup>2</sup> Indicates where the Company has provided a 'if not, why not' disclosure below.

In acknowledging the Key Messages of the first review of the corporate governance reporting under the Revised Recommendations by ASX Markets Supervision ("ASXMS"), the Company has provided additional disclosure for each of the 30 recommendations. Where the Company has departed from a Recommendation, the Company has provided substantive reasons and refers to material containing additional disclosure, as relevant.

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The “if not, why not” disclosure of the Company is summarised in the table below:

Recommendation	Explanation of Departure from Recommendation
2.1	Given the nature and size of the Company and its business interests, the Board is of the view that there is an adequate and broad mix of skills on the Board and the experience of each of the Directors enables them to be aware of and capable of acting in an independent manner and in the best interests of the Shareholders.
2.3	<p>Given the nature and size of the Company and its business interests, the Board considers that Mr Stokes’ skill set and experience qualifies him as the best candidate for both positions at this time.</p> <p>However, the Company is in the course of remedying this situation.</p>
2.4	Owing to the size and composition of the Board, it is not appropriate to establish an independent nomination committee, or to establish a formal nomination policy at this stage.
4.2	Owing to the size and composition of the Board, the Company’s audit committee does not consist of only non-executive Directors and a majority of independent Directors, nor is it chaired by an independent chair.
7.2	Owing to the size and composition of the Board, it is not appropriate to establish formal risk management policies, as this function is effectively discharged by the full Board with some degree of involvement from management.

As the Company’s activities develop in size, nature and scope, the Company’s corporate governance policies and processes will continue to be reviewed and improved as resources permit.

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**DIRECTORS' REPORT**

Your directors present their report, together with the financial statements for the Group, being the Company and its controlled entities for the financial year ended 30 June 2010.

QRSciences Holdings Limited is based in Melbourne, Victoria. Its wholly owned distribution business, QRSciences Security Pty Ltd has offices located in Melbourne, Sydney, Brisbane and Perth, and comprises; Q Video Systems and Q Alarm Supplies.

There were significant changes in the Company's focus during the year with the exit of all non revenue and cash flow negative business units, which was highlighted with the exit of the QRSciences Pty Ltd business, the Perth based R&D business, the sale of all the Company's US based assets and the relocation of all corporate functions from Perth to Melbourne.

The result of these actions has created a streamlined Company that is focused on the Australian security market and is poised for growth in the coming year.

**Consolidated Result**

QRSciences Holdings Limited results for the year ended 30 June 2010 were outstanding with the board and management delivering on the Company's strategy to exit non revenue producing businesses and assets.

The Company's full year revenue increased by 7.1% to \$19.298m and for the period the Company had a net profit result up 586% to \$4.615m.

The profit was driven by the continuing success of the Q Video Systems and Q Alarm Supplies businesses and the sale of the Company's interest in Spectrum San Diego.

**Review of Operations**

The Company has completed a ground breaking year with outstanding results being achieved for the Group and the profits achieved in our QRSciences Security Distribution business and sale of our investment in Spectrum SDI (USA) has provided good outcomes for the Company and significantly strengthening the statement of financial position.

QRSciences Security Pty Ltd, which comprises Q Video Systems and Q Alarm Supplies, continues to grow and is expected to continue to generate positive cash flow in the future with growing revenues and profits. The business had sales for the year of \$19.298m and a Net Profit after tax of \$1.257m.

The Company's investment in Spectrum was sold and a gain on disposal of \$3.341m was realised. Additional funds may be received in the future as the company has agreements in place with a "holdback" payment of US\$531k due in March 2011, subject to adjustment and potential "earnout" payments of up to US\$7.31 million over the next 6 years also subject to adjustment. The residual asset associated with the Spectrum business, Tek84, was also sold in the period and a gain of \$264k was realised from this sale.

The Company also sold the DVOP.OB asset; our 97% owned listed Company Shell in the USA for US\$215k in the period.

QRSciences Pty Ltd, the Perth based R&D business, was also exited in the period with the sale of the business assets and associated IP to Rapiscan Systems Inc for a total price of US\$150k. The remainder of the staff was terminated on 17 June 2010 and the business operations ceased trading at this time.

The Board remains intent on improving the sales and profits of the Company and is determined to continue to deliver increased shareholder value through aggressive business strategies and expansion of the Company in line with our profitable business units.

**Update on QRSciences Security Pty Ltd**

QRSciences Security Pty Ltd, which comprises Q Video Systems and Q Alarm Supplies, with offices located in Melbourne, Sydney, Brisbane and Perth, achieved a Net Profit after tax of \$1.257m on continued earnings growth of \$19.298m, which was up 7.1% compared to the previous corresponding period.



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Highlights for the period were;

- Revenue up 7.1% to \$ 19.298m when compared to the previous corresponding period.
- Net Profit after tax for the period of \$1.257m up significantly from the loss of \$756k for the same corresponding period last year.
- Distribution arrangements with major suppliers Samsung Korea and DSC Canada strengthened materially throughout the period under review.

The Company is pleased with the ongoing progress in the Q Video Systems and Q Alarm Supplies businesses and the growth opportunities that are present in the market for the businesses.

Merger and expansion opportunities are under constant review as are the various forms of funding to support these future activities, the current discussions with the API Security business announced on 23 July 2010 is testament to the drive of the management to continue to expand in the security market in Australia.

**Update on QRSciences Pty Ltd**

The Company has now exited QRSciences Pty Ltd, the Company's Perth based R&D business, with the sale of the assets and associated IP to Rapiscan Systems Inc in the USA for US\$150k. The sale of the assets rules a line through any further exposure to a cash flow negative business and will allow management to focus on the profitable business units the Company operates in Australia.

**Update on USA Operations**

The Company has also exited all the US business operations and no longer holds any US based assets.

The result in the sale process announced 21 December 2009 in relation to the Companies Spectrum SDI investment was an outstanding result for the Company and was one of the prime drivers in our stellar result for the period.

The Company received \$6.240m cash in January as part of the sales process for Spectrum, which was a profit before tax of \$3.341m.

The Company also expects to receive a further payment, subject to some adjustments of US\$531k around March 2011 and further payments aligned to the rollout of the car Scan product over the next 6 years of up to US\$7.31m.

The earn out payments are out of the control of the Company as the Car Scan product is yet to be proven in the field, but the *CarScan* product shows great promise and SAIC did make a significant investment in the future development of the product for the Global Security market.

Highlights for the period were;

- The Companies investment in Spectrum SDI (USA) was sold for a profit of \$3.341m and funds received in January 2010 from the USA of \$6.240m.
- The Company maintained a 20.4% ownership of Tek84 (residual assets in Spectrum SDI) after the sale of the car Scan technology which was sold for \$264k in the period.
- The Company also sold the DVOP.OB asset, our 97% owned listed Company Shell in the USA for US\$215k in the period.

The Board and senior management are delighted with recent efforts to refocus the Company, increase revenue and post a profit for the period. The continued improvement of earnings and the creation of a stronger balance sheet are significant recent events.

The Company has emerged stronger, more resilient and looks forward to the future with confidence.

**Financial Position**

The net assets of the consolidated group have increased from \$7.940m on 30 June 2009 to \$12.186m on 30 June 2010. The increase is largely due to the following factors;

- The sale of the Company's investment in Spectrum SDI (USA) for a profit of \$3.341m and cash funds received in January 2010 from the USA of \$6.240m.
- The sale of the Company's 20.4% ownership of Tek84 (residual assets in Spectrum SDI) for \$264k.
- The sale of the Company's 97% owned listed Company Shell in the USA DVOP-OB for US\$215k.

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- The sale of the Company's Perth based R&D business QRSciences Pty Ltd, assets and associated IP to Rapiscan Systems Inc in the USA for US\$150k.

The efforts of the board and management in achieving these outcomes contributed to the increase in net assets for the consolidated group, which had cash on hand at 30 June 2010 of \$6.920m.

The Company is now ready to expand its now profitable Australian based security business to continue to evolve the Company into a strong growth Company focused on the Australian security market.

**Significant Changes in State of Affairs**

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

- On 21 December 2009 the Company's investment in Spectrum SDI (USA) was sold for a profit of \$3.341m and cash funds received in January 2010 from the USA of \$6.240m.
- On 23 March 2010 the Company's 97% owned listed Company Shell in the USA DVOP-OB was sold for US\$215k.
- On 22 April 2010 the Company's QRSciences Pty Ltd, the Perth based R&D business, assets and associated IP was sold to Rapiscan Systems Inc in the USA for US\$150k.
- On 25 June 2010 the Company's 20.4% ownership of Tek84 (residual assets in Spectrum SDI) was sold for \$264k.

**Dividends Paid or Recommended**

There were no dividends paid or recommended in the period.

**Events Occurring After Balance Date**

The following events occurred after the balance date of the accounts, being;

- On 13 July 2010 the Company entered into an exclusive distribution agreement with Tyco Security Products for the DSC Alarm products for Australia.
- On 23 July 2010 the Company announced it had entered into a non-binding term sheet with API Security Pty Ltd (API) in relation to a potential acquisition of the API Services and Solutions business (Business).
- On 10 August 2010 the Company announced the intention to close down some dormant subsidiaries and to place QRSciences Pty Ltd into voluntary administration.
- On 22 September 2010 the Company entered into a conditional Business Sale Agreement to purchase the API Services and Solutions business through a wholly owned subsidiary (Acquisition).

This business is one of Australia's leading security businesses and provides locksmith services including the design and installation of masterkey services and servicing and keying of lock systems

The purchase price for the Acquisition is \$13.92m subject to post-completion working capital and assumed finance debt adjustments. The purchase price will be satisfied by the payment of cash and the assumption of certain debts totaling \$1.359m. The purchase price will be funded through QRS' existing cash holdings and debt facilities provided by a financial institution and Helmsman Capital Fund Trust IIB (Helmsman).

Completion of the transaction is scheduled for 30 September 2010, subject to the conditions precedent to the Acquisition being satisfied or waived by that time. The conditions precedent include QRS and Helmsman board and committee approvals, certain approvals from financiers, consents to the assignments of important contracts, no material adverse change in the business assets, transfer of certain key employees and QRS obtaining satisfactory warranty insurance.

The Acquisition is expected to be earnings per share positive for QRS and will create a business with 23 branch locations throughout Australia, this level of market saturation in the Australian security market will assist in the delivery of QRS existing products along with the ongoing delivery of API's locksmith products and services.

Shareholder approval is not required for the Acquisition but QRS will be seeking shareholder approval at its AGM to allow Helmsman the right to convert the debt provided for the acquisition into shares in QRS. The terms of this proposed conversion arrangement is still to be agreed but will be detailed in the notice for the AGM.

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These events for the Company reinforced the Board's commitment to expand the Company and grow revenues, concurrent with the commitment to ensure cash flow negative business units are exited with the ultimate aim to unlock shareholder value

**Carrying strong momentum into FY11**

The Company is expecting continued revenue growth in FY11. This positive outlook embraces a continuation of the strong growth being experienced by our Distribution businesses, as it increases market share and diversifies its products in the rapidly growing Australian security products market along with the intention of the Company to acquire synergistic businesses that will deliver revenue and profit growth.

**Information on the Directors**

<b>Richard James Stokes</b>	—	Chief Executive Officer/Executive Chairman
Experience and Qualifications	—	<p>Mr Stokes joined the Company in a Consulting role on 9 February 2007 where he was the CEO of the acquired business Baxall Australia. Mr Stokes became the CEO and a Director of QRSciences Holdings Limited on 19 December 2007. In October 2008, Mr Stokes became the Executive Chairman and he is also a Director of wholly owned subsidiaries QRSciences Pty Ltd and QRSciences Security Pty Ltd.</p> <p>Mr Stokes has been involved in the electrical and security industry for some 22 years where he has successfully developed and operated numerous electrical contracting and security distribution businesses. He was the founder of Vicam CCTV systems which revolutionised the delivery of CCTV products in the Australian market.</p> <p>The Vicam business was restructured and merged into the Pacific Communications business when it was acquired by the Hills Industries Group. The acquisition was orchestrated and managed by Mr Stokes who then, as General Manager of Pacific Communications, directed its operations to quickly become the local market leader with turnover in excess of \$40m.</p> <p>Mr Stokes has an extensive industry contact base locally and internationally and through his vast experience will enable the Company to expand into previously uncharted territory. His role at the Company will encompass the growth and development of the business on a national and international level.</p>
Interest in Shares and Options	—	2,728,352 ordinary shares in QRSciences Holdings Limited and options to acquire a further 80,826 ordinary shares
Special Responsibilities	—	Chief Executive officer and Executive Chairman
Directorships held in other listed entities during the three years prior to the current year	—	Nil.

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<b>Kevin Russeth</b>	—	Director, resigned on 28 February 2010.
Experience and Qualifications	—	<p>Mr Russeth joined QRSciences Holdings Limited in 2002 as CEO and Chairman of the Board of Directors. He resigned as a Director of the Company and all the Company's subsidiaries on 28 February 2010. Mr Russeth commenced his business career with Electronic Data Systems in Dallas, Texas and is a graduate of their Systems Engineer Development (SED) Program. In 1985 Mr Russeth joined EF Hutton &amp; Co (later acquired by Shearson Lehman Brothers) spending 11 years with global investment banks, including Shearson Lehman Brothers, Merrill Lynch, and most recently with Smith Barney as Vice President. Mr Russeth held NASD Series 7, 9 and 10 licences until 2002 when he left Smith Barney. He has had substantial experience in the public and private capital markets in both Australia and the United States and has been involved in a variety of complex domestic and international business transactions.</p> <p>Mr Russeth completed his undergraduate study at Gustavus Adolphus in St. Peter, Minnesota graduating with honours and a degree in Business Administration. He was accepted into the MBA program at Boston College School of Management, Chestnut Hill, Massachusetts in April 1985.</p>
Interest in Shares and Options	—	5,855,963 ordinary shares in QRSciences Holdings Limited and options to acquire a further Nil ordinary shares
Special Responsibilities	—	Nil
Directorships held in other listed entities during the three years prior to the current year	—	Nil
<b>Robert Halverson</b>	—	Non-Executive Director
Experience and Qualifications	—	<p>Mr Halverson joined the QRSciences Holdings Limited Board on 21 August 2006. He has had a long and distinguished career in the service of Australia, firstly with the Royal Australian Air Force, then as a member of the Australian Federal Parliament and as Speaker of the House of Representatives, more recently in the Department of Foreign Affairs and Trade as Australian Ambassador to Ireland and the Holy See.</p> <p>Mr Halverson brings with him considerable experience in the areas of government, international relations and finance, which complements existing Board expertise in aviation and homeland security. He worked at Robertson Thompson Partners, stockbrokers, as a financial adviser, completing the Securities Institute of Australia course in 1984.</p>
Interest in Shares and Options	—	3,181,492 ordinary shares in QRSciences Holdings Limited and options to acquire a further 42,000 ordinary shares
Special Responsibilities	—	Member of remuneration and audit committee.
Directorships held in other listed entities during the three years prior to the current year	—	Nil.

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<b>Douglas Potter</b>	—	Director
Experience and Qualifications	—	<p>Douglas Potter is Managing Director of Helmsman Funds Management Limited, Douglas is responsible for the fund raising as well as originating, managing and exiting investments. He is currently a Director of several Helmsman portfolio companies including Zone Advanced Protection Systems, National Medical and Imaging Group. Helmsman Capital is a mid market special situations fund, investing in company's requiring balance sheet restructuring, operational turnaround and loan to own strategies and industry consolidations.</p> <p>With over 19 years hands on experience Douglas has been involved in a large number of turnaround investment, strategy review, business planning, restructuring and recovery assignments. Prior to joining Helmsman he worked for KPMG Corporate Recovery where he was admitted to partnership in 2002. He was a foundation partner of McGrath Nicol on 1 July 2004.</p> <p>Douglas holds a Bachelor of Economics from University of Sydney and has completed an Advanced Insolvency Course through the Insolvency Practitioners Association of Australia. He is a member of the Institute of Chartered Accountants in Australia and the Australian Private Equity &amp; Venture Capital Association.</p>
Interest in Shares and Options	—	Nil ordinary shares in QRSciences Holdings Limited and options to acquire a further Nil ordinary shares
Special Responsibilities	—	Member of remuneration and audit committee.
Directorships held in other listed— entities during the three years prior to the current year	—	Nil.

**Company Secretary**

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

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

Mr Taylor has extensive experience in taxation, business services, budgeting, financial modeling, corporate structuring, audit and superannuation.

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**DIRECTORS' REPORT**

**Meetings of Directors**

During the financial year, 10 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

<b>Committee Meetings</b>				
	<b>Number eligible to Attend</b>	<b>Number attended</b>	<b>Number eligible to attend</b>	<b>Number attended</b>
Richard Stokes	10	10	-	-
Kevin Russeth	5	5	-	-
Robert Halverson	10	10	4	4
Douglas Potter	10	10	4	4

**Indemnifying Officers or Auditor**

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

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

**Options**

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

<b>Grant Date</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number under Option</b>
16-Aug-07	30-Jun-12	\$0.450	43,035,039
	30-Sept-10	\$1.000	50,500
23-May-08	10-May-12	\$0.300	1,114,384
	10-May-14	\$0.587	3,801,547
	10-May-14	\$0.797	3,801,547
	19-Oct-12	\$0.300	906,859
22-Apr-08	11-Apr-11	\$0.200	450,000
	10-May-14	\$0.237	7,500,000
			60,659,876

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

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

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**DIRECTORS' REPORT**

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

**Proceedings on Behalf of Company**

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

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

**Non-audit Services**

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

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

The following fees were paid or payable to Moore Stephens for non-audit services provided during the year ended 30 June 2010:

	<b>\$000</b>
Taxation services	20

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 19 of the financial report.

**ASIC Class Order 98/100 Rounding of Amounts**

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

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**REMUNERATION REPORT**

**Remuneration Policy**

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

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

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

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

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

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

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

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

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



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**REMUNERATION REPORT**

**Performance-based Remuneration**

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

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

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

**Relationship between Remuneration Policy and Company Performance**

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

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

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

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

The following table shows the gross revenue, profits and dividends for the last 5 years for the listed entity, as well as the share prices at the end of the respective financial years.

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	2,667	14,274	16,730	18,009	19,298
Net Profit/(loss)	(6,790)	(10,736)	(33,940)	673	4,615
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Share price at year-end	0.540	0.335	0.090	0.025	0.05

**QRSciences Holdings Limited and Controlled Entities**  
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**REMUNERATION REPORT**

**Performance Conditions Linked to Remuneration**

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

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

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

**Employment Details of Members of Key Management Personnel and Other Executives**

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

	Position held as at 30 June 2010 and any change during the year	Contract details (duration & termination)	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
			Non-salary cash-based incentives	Shares/ Units	Options/ Rights	Fixed Salary/ Fees	Total
			%	%	%	%	%
<b>Group Key Management Personnel</b>							
Richard Stokes	Chief Executive Officer	Consultancy Agreement	22	-	-	78	100
Kevin Russeth	Director	Ceased Directorship 28 February 2010	-	-	-	100	100
Robert Halverson	Non-Executive Director	No contract	-	-	-	100	100
Douglas Potter	Director	Per Loan Facility Agreement with Helmsman	-	-	-	100	100
Jamie Taylor	Chief Financial Officer/Company Secretary	Standard Employment contract	-	-	-	100	100

The employment terms and conditions of key management personnel and Group executives are formalised in contracts of employment.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of one months notice prior to termination of contract. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

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**REMUNERATION REPORT**

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

**Changes in Directors and Executives Subsequent to Year-end**

None.

**Remuneration Details for the Year Ended 30 June 2010**

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

**Table of Benefits and Payments for the Year Ended 30 June 2010**

		Short-term benefits				Post-employment benefits		Long-term benefits		Equity-settled share-based payments		Cash-settled shared-based payments	Termination benefits	Total
		Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Pension and superannuation	Other	Incentive plans	LSL	Shares/Units	Options/Rights			
												\$'000	\$'000	\$'000
Group Key Management Personnel														
Richard Stokes	2010	261	76	-	-	16	-	-	-	-	-	-	-	353
	2009	252	56	-	-	8	-	-	-	-	-	-	-	316
Kevin Russeth	2010	150	-	-	-	13	-	-	29	-	-	-	42	234
	2009	337	-	-	-	9	-	-	27	-	-	-	-	373
Robert Halverson	2010	34	-	-	-	-	-	-	-	11	-	-	-	45
	2009	11	-	-	-	-	-	-	-	34	-	-	-	45
Douglas Potter	2010	45	-	-	-	-	-	-	-	-	-	-	-	45
	2009	-	-	-	-	-	-	-	-	-	-	-	-	-
Jamie Taylor	2010	140	-	-	-	13	-	-	-	-	-	-	-	153
	2009	126	-	-	-	11	-	-	-	-	-	-	-	137

**Securities Received that are not Performance Related**

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

**QRSciences Holdings Limited and Controlled Entities**  
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**REMUNERATION REPORT**

**Cash Bonuses, Performance-related Bonuses and Share-based Payments**

The terms and conditions relating to options and bonuses granted as remuneration during the year to key management personnel and other executives during the year are as follows:

	Remuneration type	Payment/ Grant date	Value \$'000	Reason for grant
<b>Group Key Management Personnel</b>				
Richard Stokes	cash	February 2010	76	n/a
Kevin Russeth	n/a	n/a	n/a	n/a
Robert Halverson	shares	July 2009	11	Note 1
Douglas Potter	n/a	n/a	n/a	n/a
Jamie Taylor *	n/a	n/a	n/a	n/a

\* 50,000 options held by Jamie Taylor expired during the year. Refer to Note 7 for further details.

Note 1: Shares in lieu of directors fees

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



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Richard Stokes, Director

Dated: 30 September 2010

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**AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF QRSCIENCES HOLDINGS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there has 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.



MOORE STEPHENS  
Chartered Accountants



Grant Sincock  
Partner

Melbourne, 30 September 2010

**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED INCOME STATEMENT**  
**FOR YEAR ENDED 30 JUNE 2010**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	3	19,298	18,009
Interest income		185	13
Other Income	3	6,091	(3)
Changes in inventories		1,398	(31)
Purchases		(15,129)	(13,443)
Employee benefits expense		(3,804)	(3,031)
Depreciation and amortisation expense		(190)	(111)
Finance costs		(335)	(482)
Other expenses		(2,201)	(2,809)
<b>Profit/(Loss) before income tax</b>		<b>5,313</b>	<b>(1,888)</b>
Income tax (expense)/benefit	5	(191)	(116)
<b>Profit/(Loss) from continuing operations</b>		<b>5,122</b>	<b>(2,004)</b>
Profit/(Loss) from discontinued operations	6	(507)	2,677
<b>Profit/(Loss) for the period</b>	4	<b>4,615</b>	<b>673</b>
Profit/(Loss) attributable to:			
Members of the parent entity		4,615	673
Non-controlling interest		-	-
		<b>4,615</b>	<b>673</b>
<b>Earnings per share</b>			
From continuing and discontinued operations:			
Basic earnings per share (cents)	10	3.0	0.7
Diluted earnings per share (cents)	10	3.0	0.7
From continuing operations:			
Basic earnings per share (cents)	10	3.4	(2.2)
Diluted earnings per share (cents)	10	3.4	(2.2)
From discontinuing operations:			
Basic earnings per share (cents)	10	(0.3)	3.0
Diluted earnings per share (cents)	10	(0.3)	3.0

The accompanying notes form part of these financial statements.

**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2010**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Profit/(Loss) for the period		4,615	673
<b>Other comprehensive income</b>			
Exchange differences on translating foreign controlled entities		18	1,190
- Income tax effect		-	-
Reclassification of FCTR on disposal of foreign operations		(387)	-
- Income tax effect		-	-
Other comprehensive income for the year, net of tax		(369)	1,190
<b>Total comprehensive income for the period</b>		<b>4,246</b>	<b>1,863</b>
Total comprehensive income attributable to:			
Members of the parent entity		4,246	1,863
Non-controlling interest		-	-
		4,246	1,863

The accompanying notes form part of these financial statements.

**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010**

		<b>Consolidated Group</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11	6,920	1,675
Trade and other receivables	12	4,785	3,496
Inventories	13	5,839	4,441
Other current assets	17	124	134
		<hr/>	<hr/>
		17,668	9,746
Non-current assets classified as held for sale		136	162
<b>TOTAL CURRENT ASSETS</b>		<hr/> <b>17,804</b>	<hr/> <b>9,908</b>
<b>NON-CURRENT ASSETS</b>			
Other financial assets	14	-	3,270
Property, plant and equipment	16	358	333
Deferred tax assets	20	265	179
Other assets	17	120	189
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT ASSETS</b>		<hr/> <b>743</b>	<hr/> <b>3,971</b>
<b>TOTAL ASSETS</b>		<hr/> <b>18,547</b>	<hr/> <b>13,879</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	3,188	2,400
Borrowings	19	1,437	1,604
Current tax liabilities	20	277	95
Short-term provisions	21	14	7
		<hr/>	<hr/>
		<b>4,916</b>	<b>4,106</b>
Liabilities directly associated with non-current assets classified as held for sale		-	345
<b>TOTAL CURRENT LIABILITIES</b>		<hr/> <b>4,916</b>	<hr/> <b>4,451</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	19	1,445	1,461
Long-term provisions	21	-	27
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<hr/> <b>1,445</b>	<hr/> <b>1,488</b>
<b>TOTAL LIABILITIES</b>		<hr/> <b>6,361</b>	<hr/> <b>5,939</b>
<b>NET ASSETS</b>		<hr/> <b>12,186</b>	<hr/> <b>7,940</b>

The accompanying notes form part of these financial statements.



**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>EQUITY</b>			
Issued capital	22	70,741	70,741
Reserves		52	421
Retained earnings/(losses)		(58,607)	(63,222)
<b>TOTAL EQUITY</b>		<b>12,186</b>	<b>7,940</b>

The accompanying notes form part of these financial statements.

**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR YEAR ENDED 30 JUNE 2010**

Note	Issued Capital Ordinary	Retained Losses	Foreign Currency Translation Reserve	Options Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2008</b>	69,236	(63,895)	(821)	52	4,572
Shares issued during the period	1,505	-	-	-	1,505
Total other comprehensive income for the period	-	-	1,190	-	1,190
Profit attributable to members of the parent entity	-	673	-	-	673
<b>Subtotal</b>	70,741	(63,222)	369	52	7,940
Dividends paid or provided for	-	-	-	-	-
<b>Balance at 30 June 2009</b>	70,741	(63,222)	369	52	7,940
<b>Balance at 1 July 2009</b>	70,741	(63,222)	369	52	7,940
Profit attributable to members of the parent entity	-	4,615	-	-	4,615
Total other comprehensive income for the period	-	-	(369)	-	(369)
Reclassification on disposal of foreign operations	-	-	-	-	-
<b>Subtotal</b>	70,741	(58,607)	-	52	12,186
Dividends paid or provided for	-	-	-	-	-
<b>Balance at 30 June 2010</b>	70,741	(58,607)	-	52	12,186

The accompanying notes form part of these financial statements.

**QRSciences Holdings Limited and Controlled Entities**  
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**CONSOLIDATED STATEMENT OF CASHFLOWS FOR YEAR ENDED 30 JUNE 2010**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		21,953	20,581
Payments to suppliers and employees		(22,733)	(23,389)
Grants received		-	918
Interest received		185	126
Finance costs		(257)	(306)
Income tax paid		(95)	(120)
Net cash provided by (used in) operating activities	26	(947)	(2,190)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		169	-
Proceeds from sale of available-for-sale investments		6,755	50
Purchase of property, plant and equipment		(156)	(73)
Purchase of available-for-sale investments		-	(99)
Loans repaid by other entities		-	1,145
Net cash provided by (used in) investing activities		6,768	1,023
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	1,321
Proceeds from borrowings		-	1,200
Repayment of borrowings		(270)	(1,554)
Convertible Note Interest and Fees		-	(67)
Net cash provided by (used in) financing activities		(270)	900
Net increase/(decrease) in cash held		5,551	(267)
Cash and cash equivalents at beginning of financial year	11	853	1,120
Cash and cash equivalents at end of financial year	11	6,404	853

The accompanying notes form part of these financial statements.

**QRSciences Holdings Limited and Controlled Entities**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 1: SUMMARY of Significant Accounting Policies**

These consolidated financial statements and notes represent those of QRSciences Holdings Limited and controlled entities ('Consolidated Group' or 'Group').

The separate financial statements and notes of QRSciences Holdings Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001* effective as at 28 June 2010.

The financial information for the parent entity as disclosed in Note 2 to the financial statements has been prepared on the same basis as the consolidated financial statements.

**BASIS OF PREPARATION**

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

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

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

**a. Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by QRSciences Holdings Limited at the end of the reporting period. A controlled entity ('subsidiary') is any entity over which QRSciences Holdings Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 15 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

**Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date,

the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(i)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

**b. Income Tax**

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

**c. Inventories**

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

**d. Property, Plant and Equipment**

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

**Plant and equipment**

Plant and equipment are measured on the cost basis.

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

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a diminishing value basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	5–37.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

**e. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**f. Financial Instruments**

**Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification and subsequent measurement**

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

*Amortised cost* is calculated as:

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

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

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

i. *Financial assets at fair value through profit or loss*

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

ii. *Loans and receivables*

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

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

iii. *Held-to-maturity investments*

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

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.



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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

iv. *Available-for-sale financial assets*

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

v. *Financial liabilities*

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

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**De-recognition**

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

g. **Impairment of Assets**

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**h. Foreign Currency Transactions and Balances**

**Functional and presentation currency**

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

**Transactions and balances**

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

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

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

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

**i. Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity-settled compensation**

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

**j. Provisions**

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

**k. Cash and Cash Equivalents**

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

**l. Revenue and Other Income**

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

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

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

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

**m. Trade and Other Payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

**n. Borrowing Costs**

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

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

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**o. Goods and Services Tax (GST)**

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

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

**p. Treasury Shares**

Own equity interests which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if any is recognised in other capital reserves.

**q. Comparative Figures**

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**r. Rounding of Amounts**

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

**s. Critical Accounting Estimates and Judgments**

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

**Key estimates**

**(i) Impairment**

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers.

**t. Adoption of New and Revised Accounting Standards**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of QRSciences Holdings Limited.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**AASB 3: Business Combinations**

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009. The following is an overview of the key changes and the impact on the Group's financial statements.

*Recognition and measurement impact*

**Recognition of acquisition costs** — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

**Measurement of contingent considerations** — The revised AASB 3 requires that contingent considerations associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of the payment calculated having regard to probability of settlement. Any subsequent changes in the fair value or probability of payment are recognised in the statement of comprehensive income except to the extent where they relate to conditions or events existing at acquisition date, in which case the consideration paid is adjusted. The previous version of AASB 3 allowed such changes to be recognised as a cost of the combination impacting goodwill.

**Measurement of non-controlling interest** — For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at the fair value of the non-controlling interest (the *full goodwill method*) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Under the previous version of AASB 3 only the latter option was permitted.

**Recognition of contingencies** — The revised AASB 3 prohibits entities from recognising contingencies associated with a business combination, unless they meet the definition of a liability.

**Business combinations achieved in stages** — The revised AASB 3 requires that where a business combination is achieved in stages, any previously held equity interest is to be remeasured to fair value and the resulting gain or loss, being the difference between fair value and historical cost, is to be recognised in the statement of comprehensive income. The previous version of AASB 3 accounted for each exchange transaction separately, using cost and fair value information at the date of each exchange to determine the amount of any goodwill associated with the acquisition. It was therefore possible to compare the cost of each individual investment with the fair value of identifiable net assets acquired at each step.

*Disclosure impact*

The revised AASB 3 contains a number of additional disclosure requirements not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

**AASB 8: Operating Segments**

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Measurement impact*

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

*Impairment testing of the segment's goodwill*

AASB 136: Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

*Disclosure impact*

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

**AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

*Disclosure impact*

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**u. New Accounting Standards for Application in Future Periods**

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

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing 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. 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; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- **AASB 124: Related Party Disclosures** (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.
- **AASB 2009-5: Further Amendments to Australian Accounting Standards** arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- **AASB 2009-8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions** [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.
- **AASB 2009-12: Amendments to Australian Accounting Standards** [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.



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**NOTE 2: PARENT INFORMATION**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.		
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
Current Assets	7,592	1,934
<b>TOTAL ASSETS</b>	<b>13,384</b>	<b>11,457</b>
<b>LIABILITIES</b>		
Current Liabilities	96	173
<b>TOTAL LIABILITIES</b>	<b>1,541</b>	<b>1,630</b>
<b>EQUITY</b>		
Issued Capital	70,741	70,741
Reserves	52	52
Retained earnings	(58,850)	(60,966)
<b>TOTAL EQUITY</b>	<b>11,843</b>	<b>9,827</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Total profit/(loss)	2,016	(8,580)
Total comprehensive income	2,016	(8,580)

**NOTE 3: REVENUE AND OTHER INCOME**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from Continuing Operations</b>			
Sales revenue			
— sale of goods		19,298	18,009
		19,298	18,009
Other revenue			
— interest received	3a	185	13
		185	13
Total Revenue		19,483	18,022

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**NOTE 3: REVENUE AND OTHER INCOME (CONTINUED)**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Other Income</b>			
— gain on disposal of non-current investments		4,435	(3)
— foreign exchange gains		1,190	-
— other income		466	-
		<hr/> 6,091	<hr/> (3)
a. Interest revenue from:			
— financial institutions		185	13
Total interest revenue on financial assets not at fair value through profit or loss		<hr/> 185	<hr/> 13

**NOTE 4: PROFIT FOR THE YEAR**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
a. <b>Expenses</b>			
Cost of sales		13,731	13,474
Interest expense on financial liabilities not at fair value through profit or loss			
— external		69	251
— other related entities	28	180	30
— bank charges		86	201
Total interest expense		<hr/> 335	<hr/> 482
Bad and doubtful debts:			
— trade receivables		56	580
Total bad and doubtful debts		<hr/> 56	<hr/> 580

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**NOTE 5: INCOME TAX EXPENSE**

		<b>Note</b>	<b>Consolidated Group</b>	
			<b>2010</b>	<b>2009</b>
			<b>\$'000</b>	<b>\$'000</b>
a.	The components of tax expense comprise:			
	Current tax		277	-
	Deferred tax	20	(86)	120
	Prior year tax adjustment		-	(4)
			<hr/>	<hr/>
			191	116
b.	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)		1,441	237
	Add:			
	Tax effect of:			
—	Revenue losses not recognised		-	510
—	Prior year tax adjustments		-	9
—	Overseas losses not recognised		-	58
—	Effect of lower rate of tax on overseas loss		-	58
—	other non-allowable items		1,402	897
—	other assessable items		845	-
			<hr/>	<hr/>
			3,688	1,769

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**NOTE 5: INCOME TAX EXPENSE (CONTINUED)**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Less:			
Tax effect of:			
— other deferred tax balances not recognised		-	917
— Utilisation of prior year tax losses not previously brought to account		1,339	-
— Other non-assessable items		2,158	736
— Rebateable fully franked dividends		-	-
Income tax attributable to entity		191	116
The applicable weighted average effective tax rates are as follows:		<b>4.0%</b>	<b>15.0%</b>

The decrease in the weighted average effective consolidated tax rate for 2010 is a result of temporary differences not recognised in prior year and other non-assessable items.

**NOTE 6: DISCONTINUED OPERATIONS**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Diversified Opportunities (DVOP-OB)</b>		
On 17 March 2010 the group disposed of its investment in Diversified Opportunities (DVOP-OB) for a cash consideration of \$234k, thereby discontinuing its operations in this USA Operations.		
The financial performance of the discontinued operation is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:		
Revenue	-	-
Expenses	(17)	(157)
Profit/(Loss) before income tax	(17)	(157)
Income tax expense	-	-
Loss attributable to members of the parent entity	(17)	(157)

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**NOTE 6: DISCONTINUED OPERATIONS (CONTINUED)**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>QRSciences Pty Ltd</b>		
In October 2009 the group announced to the market its intention to dispose of QRSciences Pty Ltd, thereby discontinuing its operations in this business.		
The financial performance of the discontinued operation is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:		
Revenue	492	7,316
Expenses	(970)	(4,251)
Loss before income tax	(478)	3,065
Income tax expense	-	-
Loss attributable to members of the parent entity	(478)	3,065
<b>QRSciences Co.</b>		
In February 2009 the board resolved to wind up the operations of its wholly owned USA subsidiary QRSciences Co. A certificate of dissolution was issued on 30 October 2009, thereby discontinuing its operations in this business. No cash consideration was received upon the winding up of the above entity.		
The financial performance of the discontinued operation is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:		
Revenue	-	135
Expenses	(12)	(367)
Loss before income tax	(12)	(231)
Income tax expense	-	-
Loss attributable to members of the parent entity	(12)	(231)
The net cash flows of the discontinuing operations which have been incorporated into the statement of cash flows are as follows:		
Net cash outflow from operating activities	(485)	(688)
Net cash inflow from investing activities	169	95
Net cash outflow from financing activities	-	(48)
Net cash decrease in cash generated by the discontinuing operations	(316)	(641)

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**NOTE 7: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The total remuneration paid to KMP of the company and the Group during the year are as follows:

	<b>2010 \$'000</b>	<b>2009 \$'000</b>
Short-term employee benefits	706	796
Post-employment benefits	42	28
Other long-term benefits	29	27
Termination benefits	42	-
Share-based payments	11	34
	830	885

**KMP Options and Rights Holdings**

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	<b>Balance at beginning of year</b>	<b>Granted as remuner- ation during the year</b>	<b>Exercised during the year</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>	<b>Vested during the year</b>	<b>Vested and exer- ciseable</b>	<b>Vested and unexer- cisable</b>
<b>30 June 2010</b>								
Richard Stokes	80,826	-	-	-	80,826	-	-	-
Robert Halverson	42,000	-	-	-	42,000	-	-	-
Jamie Taylor	100,000	-	-	(50,000)	50,000	50,000	-	50,000

	<b>Balance at beginning of year</b>	<b>Granted as remuner- ation during the year</b>	<b>Exercised during the year</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>	<b>Vested during the year</b>	<b>Vested and exer- ciseable</b>	<b>Vested and unexer- cisable</b>
<b>30 June 2009</b>								
Richard Stokes	80,826	-	-	-	80,826	-	-	-
Robert Halverson	42,000	-	-	-	42,000	-	-	-
Jamie Taylor	100,000	-	-	-	100,000	-	-	-

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**NOTE 7: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP) (CONTINUED)**

**KMP Shareholdings**

The number of ordinary shares in QRSciences Holdings Limited held by each KMP of the Group during the financial year is as follows:

	<b>Balance at beginning of year</b>	<b>Granted as remuneration during the year</b>	<b>Issued on exercise of options during the year</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>
<b>30 June 2010</b>					
Richard Stokes	2,528,352	-	-	200,000	2,728,352
Robert Halverson	2,745,276	436,216	-	-	3,181,492
Jamie Taylor	8,695	-	-	-	8,695
Kevin Russeth <sup>1</sup>	7,896,105	-	-	(7,896,105)	-

<sup>1</sup> On 28 February 2010, Kevin Russeth resigned from his position as Director of the company. The balance of his holdings is shown as nil at 30 June 2010 as he was no longer a director at this date.

	<b>Balance at beginning of year</b>	<b>Granted as remuneration during the year</b>	<b>Issued on exercise of options during the year</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>
<b>30 June 2009</b>					
Richard Stokes	1,261,388	-	-	1,266,964	2,528,352
Robert Halverson	519,180	987,777	-	1,238,319	2,745,276
Jamie Taylor	8,695	-	-	-	8,695
Kevin Russeth	3,045,985	-	-	4,850,120	7,896,105

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 30: Related Party Transactions.

**NOTE 8: AUDITORS' REMUNERATION**

	<b>Consolidated Group</b>	
	<b>2010 \$'000</b>	<b>2009 \$'000</b>
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial statements	103	71
— taxation services	20	55
Remuneration of the auditor of subsidiaries for:		
— Auditing or reviewing the financial statements of subsidiaries	-	34

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 9: DIVIDENDS**

No dividends were paid or provided for during the year (2009: Nil)

**NOTE 10: EARNINGS PER SHARE**

		<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
a.	Reconciliation of earnings to profit or loss		
	Profit	4,615	673
	Earnings used to calculate basic and dilutive EPS	4,615	673
b.	Reconciliation of earnings to profit or loss from continuing operations		
	Profit/(loss) from continuing operations	5,122	(2,004)
	Earnings used to calculate basic and dilutive EPS from continuing operations	5,122	(2,004)
c.	Reconciliation of earnings to profit or loss from discontinuing operations		
	Profit/(Loss) from discontinuing operations	(507)	2,677
	Earnings used to calculate basic EPS from discontinuing operations	(507)	2,677
d.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	151,735,256	90,202,749
	Weighted average number of dilutive options outstanding	-	-
	Weighted average number of ordinary shares and options outstanding during the year used in calculating dilutive EPS	151,735,256	90,202,749

**NOTE 11: CASH AND CASH EQUIVALENTS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand		880	1,675
Short-term bank deposits		6,040	-
	29	6,920	1,675

The effective interest rate on short-term bank deposits was 5.55% (2009: 2.5%) and these deposits have an average maturity of 30 days.



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**NOTE 11: CASH AND CASH EQUIVALENTS (CONTINUED)**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash and cash equivalents		6,920	1,675
Bank overdraft	19	(516)	(822)
		<u>6,404</u>	<u>853</u>

A floating charge over cash and cash equivalents has been provided for certain debts. Refer to Note 21 for further details.

**NOTE 12: TRADE AND OTHER RECEIVABLES**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>			
Trade receivables	12d	4,410	4,064
Provision for impairment	12a(i)	(244)	(568)
		<u>4,166</u>	<u>3,496</u>
Other receivables		747	-
Provision for impairment	12a(ii)	(128)	-
		<u>619</u>	<u>-</u>
Total current trade and other receivables		<u>4,785</u>	<u>3,496</u>

**a. Provision For Impairment of Receivables**

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

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**NOTE 12: TRADE AND OTHER RECEIVABLES (CONTINUED)**

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

	<b>Opening Balance 1.7.2008 \$'000</b>	<b>Charge for the Year \$'000</b>	<b>Amounts Written Off \$'000</b>	<b>Closing Balance 30.6.2009 \$'000</b>
<b>Consolidated Group</b>				
(i) Current trade receivables	190	378	-	568
	190	378	-	568
	<b>Opening Balance 1.7.2009 \$'000</b>	<b>Charge for the Year \$'000</b>	<b>Amounts Written Off \$'000</b>	<b>Closing Balance 30.6.2010 \$'000</b>
(i) Current trade receivables	568	-	(324)	244
(ii) Current other receivables	-	128	-	128
	568	128	(324)	372

**b. Credit Risk — Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 13. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

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

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

	<b>Gross amount \$'000</b>	<b>Past due and impaired \$'000</b>	<b>Past due but not impaired (days overdue)</b>				<b>Within initial trade terms \$'000</b>
			<b>&lt; 30 \$'000</b>	<b>31–60 \$'000</b>	<b>61–90 \$'000</b>	<b>&gt; 90 \$'000</b>	
<b>2010</b>							
Trade receivables	4,410	244	1,351	259	91	244	2,221
Other receivables	747	128	-	-	-	-	619
Total	5,157	372	1,351	259	91	244	2,840
<b>2009</b>							
Trade receivables	4,064	568	1,045	185	114	640	1,512
Total	4,064	568	1,045	185	114	640	1,512

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**NOTE 12: TRADE AND OTHER RECEIVABLES (CONTINUED)**

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

**c. Financial assets classified as loans and receivables**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Trade and other receivables			
— Total current	29	4,785	3,496
Financial assets		4,785	3,496

**d. Collateral pledged**

A floating charge over trade receivables has been provided for certain debts. Refer to Note 19 for further details.

**NOTE 13: INVENTORIES**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
CURRENT			
Finished goods, at net realisable value		5,839	4,441

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**NOTE 14: OTHER FINANCIAL ASSETS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>NON-CURRENT</b>			
Available-for-sale financial assets		-	3,270
Total Non-current Assets		-	3,270
<b>a. Available-for-sale financial assets comprise:</b>			
Unlisted investments, at cost			
— shares in other corporations		-	3,270
— units in unit trusts		-	110
— Less: impairment provision		-	(110)
Total available-for-sale investments at cost		-	3,270
Unlisted investments, at recoverable amount			
— shares in other corporations, at cost		-	40
Less: Impairment provision		-	(40)
		-	-
Total non-current available-for-sale financial assets	29	-	3,270

**NOTE 15: CONTROLLED ENTITIES**

**a. Controlled Entities Consolidated**

	<b>Country of Incorporation</b>	<b>Percentage Owned (%)*</b>	
		<b>2010</b>	<b>2009</b>
Subsidiaries of QRSciences Holdings Ltd:			
QRSciences Pty Ltd	Australia	100	100.00
QRSciences Security Pty Ltd	Australia	100	100.00
QRSciences Co	USA	-	100.00
Diversified Opportunities	USA	-	97.83

\* Percentage of voting power is in proportion to ownership

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**NOTE 15: CONTROLLED ENTITIES (CONTINUED)**

**b. Disposal of Controlled Entities**

During the financial year the parent entity disposed of its interest in Diversified Opportunities (DVOP-OB) and wound up the operation of QRSciences Co. No remaining interests in the entities were held by any member of the consolidated entity. Refer to Note 6.

**NOTE 16: PROPERTY, PLANT AND EQUIPMENT**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>PLANT AND EQUIPMENT</b>			
Plant and equipment:			
At cost		826	741
Accumulated depreciation		(468)	(409)
		<hr/> 358	<hr/> 332
Total Plant and Equipment		<hr/> 358	<hr/> 333
Total Property, Plant and Equipment		<hr/> <hr/> 358	<hr/> <hr/> 333

**a. Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	<b>Plant and Equipment</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated Group:</b>		
<b>Balance at 1 July 2008</b>	562	562
Additions	67	67
Depreciation expense	(111)	(111)
PP&E now held for sale	(185)	(185)
Balance at 30 June 2009	<hr/> 333	<hr/> 333
Additions	159	159
Disposals	(18)	(18)
Depreciation expense	(116)	(116)
Balance at 30 June 2010	<hr/> <hr/> 358	<hr/> <hr/> 358

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**NOTE 17: OTHER ASSETS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>			
Prepayments		68	79
Other		56	55
		<u>124</u>	<u>134</u>
<b>NON-CURRENT</b>			
Borrowing Costs		120	189
		<u>120</u>	<u>189</u>

**NOTE 18: TRADE AND OTHER PAYABLES**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>			
Unsecured liabilities			
Trade payables		2,956	1,815
Sundry payables and accrued expenses		232	585
		<u>3,188</u>	<u>2,400</u>

**NOTE 19: BORROWINGS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>			
Unsecured liabilities			
Other loans		28	11
Lease liability	23	34	102
		<u>62</u>	<u>113</u>
Secured liabilities			
Debtor Finance Facility	19a,b	488	811
Letters of Credit	19a,b	887	680
		<u>1,375</u>	<u>1,491</u>
Total current borrowings		<u>1,437</u>	<u>1,604</u>
<b>NON-CURRENT</b>			
Unsecured liabilities			
Lease liability		-	31
		<u>-</u>	<u>31</u>

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**NOTE 19: BORROWINGS (CONTINUED)**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Secured liabilities			
Other loans	19a,b	1,445	1,430
		<u>1,445</u>	<u>1,430</u>
Total non-current borrowings		<u>1,445</u>	<u>1,461</u>
Total borrowings	29	<u>2,882</u>	<u>3,065</u>
a. Total current and non-current secured liabilities:			
Bank Overdraft		488	811
Letters of Credit		887	680
Other Loans		1,445	1,430
		<u>2,820</u>	<u>2,921</u>

**b. Collateral Provided**

The bank debt (NAB Debtor Finance Facility and Letter of Credit Facility) is secured against current assets owned by the Group. Covenants imposed by the bank require QRSciences Security Pty Ltd to have an inventory to working capital facility ratio of no less than 2.5 times, minimum interest cover of 2.5 times and a minimum capital adequacy of 40%. Within 30 days of the close of each quarter, a copy of the management accounts are to be submitted by the entity.

The loan from Helmsman Capital Fund Trust IIB for \$1.2m attracts interest at the rate of 15% pa. Interest is calculated daily and capitalised monthly. The loan term expires on 31 March 2012 and a termination fee of \$200k is payable at this time. If early repayment occurs, all interest which would otherwise would have accrued from the early repayment event to maturity would be payable.

Helmsman are the first ranking senior creditor secured over the assets and undertakings of the business including fixed and floating charges over all group entities and second ranking only to the senior secured lender to QRSciences Security Pty Ltd.

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

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	11	6,920	1,675
Trade receivables	12	4,785	3,496
Total financial assets pledged		<u>11,705</u>	<u>5,171</u>

The collateral over cash and cash equivalents represents a floating charge.

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**NOTE 20: TAX**

	<b>Consolidated Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>		
Income Tax Payable	277	95

**NON-CURRENT**

	<b>Opening Balance</b>	<b>Charged to Income</b>	<b>Charged directly to Equity</b>	<b>Changes in Tax Rate</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated Group</b>						
<b>Deferred Tax Assets</b>						
Provisions & Accruals	299	(299)	-	-	-	-
Carry Forward Revenue Losses	-	179	-	-	-	179
<b>Balance at 30 June 2009</b>	299	(120)	-	-	-	179
Provisions & Accruals	-	137	-	-	-	137
Carry Forward Revenue Losses	179	(51)	-	-	-	128
<b>Balance at 30 June 2010</b>	179	86	-	-	-	265

**NOTE 21: PROVISIONS**

	<b>Long-term Employee Benefits</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated Group</b>			
Opening balance at 1 July 2009	27	7	34
Additional provisions	-	7	7
Amounts used	(27)	-	(27)
<b>Balance at 30 June 2010</b>	-	14	14

**Analysis of Total Provisions**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Current	14	7
Non-current	-	27
	14	34



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**NOTE 21: PROVISIONS (CONTINUED)**

**Provision for Long-term Employee Benefits**

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

**NOTE 22: ISSUED CAPITAL**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
151,735,256 (2009: 151,735,256) fully paid ordinary shares	70,790	70,790
1,369,712 (2009: 1,805,928) fully paid treasury shares	(38)	(49)
436,216 (2009: nil) treasury shares allocated under employee incentive plan	(11)	-
	<u>70,741</u>	<u>70,741</u>

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

	<b>2010</b>	<b>2009</b>
	<b>No.</b>	<b>No.</b>
<b>a. Ordinary Shares</b>		
At the beginning of reporting period	151,735,256	86,252,374
Shares issued during the year		
— Jul '08	-	546,543
— Aug '08	-	415,399
— Sep '08	-	654,672
— Oct '08	-	93,487
— Nov '08	-	235,520
— Dec '08	-	196,844
— Jan '09	-	336,134
— May '09	-	63,004,283
At the end of the reporting period	<u>151,735,256</u>	<u>151,735,256</u>
— less treasury shares	<u>(1,369,712)</u>	<u>(1,805,928)</u>
At the end of the reporting period	<u>150,365,544</u>	<u>149,929,328</u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 22: ISSUED CAPITAL (CONTINUED)**

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**Treasury Shares**

Treasury shares are shares in QRSciences Holdings Ltd that are held for the purpose of an employee incentive plan.

	<b>2010</b>		<b>2009</b>	
	<b>Number of shares</b>	<b>\$'000</b>	<b>Number of shares</b>	<b>\$'000</b>
Opening Balance	1,805,928	49	-	-
Acquisition for employee incentive plan	(436,216)	(11)	1,805,928	49
<b>Closing Balance</b>	<b>1,369,712</b>	<b>38</b>	<b>1,805,928</b>	<b>49</b>

**Capital Management**

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratio's for the year ended 30 June 2010 and 30 June 2009 are as follows:

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010 \$'000</b>	<b>2009 \$'000</b>
Total borrowings	18,19	6,070	5,465
Less cash and cash equivalents	11	(6,920)	(1,675)
Net debt		(849)	3,790
Total equity		12,186	7,940
Total capital		11,337	11,730
Gearing ratio		-	32%

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**NOTE 23: CAPITAL AND LEASING COMMITMENTS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010 \$'000</b>	<b>2009 \$'000</b>
<b>a. Finance Lease Commitments</b>			
Payable — minimum lease payments			
— not later than 12 months		35	111
— between 12 months and 5 years		-	32
— greater than 5 years		-	-
Minimum lease payments		35	143
Less future finance charges		(1)	(10)
Present value of minimum lease payments		34	133

**NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

On 22 April 2010, QRSciences Holdings Ltd (QRSH) announced the sale of the assets of the QRSciences Pty Ltd (QRSPL) business to Rapiscan. After completion of that sale on 29 April 2010, QRSPL's only remaining asset was cash of \$121k. The employment of all QRSPL employees was terminated and their entitlements paid out in full on 17 June 2010, at which time operations ceased and QRSPL became dormant.

QRSPL owes \$27.5m to its parent QRSH by way of an intercompany loan. Following the cessation of trading of QRSPL, QRSH has formally withdrawn all financial support to QRSPL which has resulted in the decision by the director of QRSPL to appoint a voluntary administrator.

On the 27 July 2010 AusIndustry wrote to QRS PL informing them that they viewed the lack of a commercial outcome on the AusIndustry R&D Start Program Grant Agreement which QRS PL entered into in 2004 breached the terms of the contract, and indicated that they may seek to recover 50% of grant monies provided, namely \$1.4m.

In light of the fact that no further financial support would be provided by QRSH to QRSPL, it is the boards' view that the maximum carrying value for the contingent liability is the value of its cash assets of \$121k.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 25: OPERATING SEGMENTS**

**Segment Information**

**Identification of reportable segments**

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

The Group is managed primarily on the basis of product category and service offerings since the diversifications of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service;
- the distribution method; and
- the geographic target of the segment operations

**Types of products and services by segment**

**(i) *Investment***

QRSciences Holdings Ltd is an investment company that continues to explore and evaluate investment opportunities and has cash reserves in excess of \$6.86m at the time of release of this report.

**(ii) *Closed Circuit Television (CCTV) Distribution***

The distribution segment imports and distributes CCTV equipment primarily via its wholly owned subsidiary QRSciences Security Pty Ltd (QRSS). QRSS comprises three business units, which are Q Video Systems, Q Alarm Supplies and Q Detection Systems. These business units are aggregated as one reportable segment as the products are similar in nature and distributed to similar types of customers.

**Basis of accounting for purposes of reporting by operating segments**

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

***Inter-segment transactions***

QRSciences Holdings Ltd provides staff services to its wholly owned subsidiary QRSciences Security Pty Ltd. Service Fees are charged across accordingly on a fortnightly basis. All such transactions are eliminated on consolidation for the Group's Financial Statements.

Inter-segment loans payable and receivable exist between the following entities:

QRSciences Holdings Ltd to Diversified Opportunities

QRSciences Holdings Ltd to QRSciences Pty Ltd

These transactions are entered into on normal commercial terms.

***Segment assets***

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the reporting period, segment assets are clearly identifiable to a specific segment on the basis of their nature and physical location.

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**NOTE 25: OPERATING SEGMENTS (CONTINUED)**

*Segment liabilities*

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

*Unallocated items*

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- net gains on disposal of available-for-sale investments;
- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;
- discontinuing operations;

*Comparative information*

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

**(i) Segment performance**

	<b>Investment</b>	<b>Distribution</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>30 June 2010</b>			
<b>Revenue</b>			
External sales	-	19,298	19,298
Inter-segment sales	509	-	509
Interest revenue	152	33	185
Other Revenue	-	436	436
<b>Total segment revenue</b>	<b>661</b>	<b>19,767</b>	<b>20,428</b>
<i>Reconciliation of segment revenue to group revenue</i>			
Inter-segment elimination			(509)
Total group revenue			19,919
<b>Segment net profit/(loss) before tax</b>	<b>2,036</b>	<b>1,448</b>	<b>3,484</b>

*Reconciliation of segment result to group net profit/(loss) before tax*

Amounts not included in segment result but reviewed by the Board:

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**NOTE 25: OPERATING SEGMENTS (CONTINUED)**

	<b>Investment</b>	<b>Distribution</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
• Depreciation and amortisation	(68)	(122)	(190)
Unallocated items:			
• Corporate charges			(16)
• Finance costs			(336)
• Unrealised gain on investments			30
• Net Gain on Disposal			4,435
• Consulting Fee			(105)
• Bad and Doubtful Debts			(56)
• Realised/unrealised FX gain			1,190
• Discontinued Operations			(3,114)
• Other			(9)
Net profit before tax from continuing operations			<u>5,313</u>

	<b>Investment</b>	<b>Distribution</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>30 June 2009</b>			
<b>Revenue</b>			
External sales	-	17,782	17,782
Inter-segment sales	438	-	438
Interest revenue	21	-	21
Other revenue	-	227	227
<b>Total segment revenue</b>	<u>459</u>	<u>18,009</u>	<u>18,468</u>
<i>Reconciliation of segment revenue to group revenue</i>			
Inter-segment elimination			(438)
Total group revenue			<u>18,030</u>
<b>Segment net profit/(loss) before tax</b>	<u>(8,580)</u>	<u>(756)</u>	<u>(9,220)</u>

*Reconciliation of segment result to group net profit/(loss) before tax*

Amounts not included in segment result but reviewed by the Board:

• Depreciation and amortisation	-	(111)	(111)
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**NOTE 25: OPERATING SEGMENTS (CONTINUED)**

Unallocated items:

• Consulting fees	(471)
• Finance costs	(482)
• Bad and doubtful debts	(580)
• Net gain on disposal of available for sale investments	46
• Realised/unrealised FX loss	(50)
• Discontinued operations	9,057
• Others	(77)
	<hr/>
Net profit/(loss) before tax from continuing operations	(1,888)
	<hr/>

**(ii) Segment assets**

	<b>Investment \$'000</b>	<b>Distribution \$'000</b>	<b>Total \$'000</b>
<b>30 June 2010</b>			
<b>Segment assets</b>	13,453	10,767	24,220
Segment asset increases for the period:			
• Capital expenditure	-	67	67
	<hr/>	<hr/>	<hr/>
	-	67	67
	<hr/>	<hr/>	<hr/>

*Reconciliation of segment assets to group assets*

Inter-segment eliminations (6,140)

Unallocated assets:

• Deferred tax assets	264
	<hr/>
Total group assets from continuing operations	18,411
	<hr/>

**30 June 2009**

<b>Segment assets</b>	11,505	8,461	19,966
Segment asset increases for the period:			
• Capital expenditure	-	25	25
	<hr/>	<hr/>	<hr/>
	-	25	25
	<hr/>	<hr/>	<hr/>

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**NOTE 25: OPERATING SEGMENTS (CONTINUED)**

*Reconciliation of segment assets to group assets*

Inter-segment eliminations	(6,453)
Unallocated assets:	
• Deferred tax assets	179
Total group assets from continuing operations	<u>13,717</u>

**(iii) Segment liabilities**

	<b>Investment \$'000</b>	<b>Distribution \$'000</b>	<b>Total \$'000</b>
<b>30 June 2010</b>			
<b>Segment liabilities</b>	1,541	4,886	6,427
<i>Reconciliation of segment liabilities to group liabilities</i>			
Inter-segment eliminations			(343)
Unallocated liabilities:			
• Current tax liabilities			277
Total liabilities from continuing operations			<u>6,361</u>
<b>30 June 2009</b>			
<b>Segment liabilities</b>	1,629	4,295	5,924
<i>Reconciliation of segment liabilities to group liabilities</i>			
Inter-segment eliminations			(426)
Unallocated liabilities:			
• Deferred tax liabilities			96
Total liabilities from continuing operations			<u>5,594</u>

**(iv) Revenue by geographical region**

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

	<b>2010 \$'000</b>	<b>2009 \$'000</b>
Australia	19,919	18,022
<b>Total revenue</b>	<u>19,919</u>	<u>18,022</u>



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 25: OPERATING SEGMENTS (CONTINUED)**

**(v) Assets by geographical region**

The location of segment assets is disclosed below by geographical location of the assets:

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Australia	18,411	13,710
United States of America	-	7
<b>Total assets</b>	<b>18,411</b>	<b>13,717</b>

**(vi) Major customers**

QRSciences Security Pty Ltd has a diversified customer base that contribute to the sales of the business and the top 20 customers account for 48% of the sales revenue for the business. The business continues to diversify its customer base to ensure that no major customer will become a critical source of revenue for the business.

**NOTE 26: CASH FLOW INFORMATION**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit after income tax	4,615	673
Cash flows excluded from profit attributable to operating activities		
Gain on BTG Liability Reversed	-	(5,957)
Non-cash flows in profit		
Depreciation & Amortisation	205	167
Bad debt expense	107	-
Non-cash expenses	156	1,774
Net gain on disposal of investments	(4,435)	3
Share based payments - other	-	72
FX translation movements	-	1,305
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(817)	(33)
(Increase)/decrease in inventories	(1,398)	31
Increase/(decrease) in trade payables and accruals	544	(300)

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 26: CASH FLOW INFORMATION (CONTINUED)**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Increase/(decrease) in taxes payable	96	120
Increase/(decrease) in provisions	(20)	(45)
Cash flows from operations	(947)	(2,190)

**b. Disposal of entities**

During the year the controlled entity QR Sciences Co and Diversified Opportunities were sold. Aggregate details of this transaction are:

Disposal price	234	-
Cash consideration	234	-
Assets and liabilities held at disposal date:		
Receivables	4	-
Payables	(3,409)	-
	(3,405)	-
Net (loss)/gain on disposal	3,316	-
Net cash received	145	-

**NOTE 27: EVENTS AFTER THE REPORTING PERIOD**

The following events occurred after the reporting date of the accounts, being;

- On 13 July 2010 the Company entered into an exclusive distribution agreement with Tyco Security Products for the DSC Alarm products for Australia.
- On 23 July 2010 the Company announced it had entered into a non-binding term sheet with API Security Pty Ltd (API) in relation to a potential acquisition of the API Services and Solutions business (Business).
- On 10 August 2010 the Company announced the intention to close down some dormant subsidiaries and to place QRSciences Pty Ltd into voluntary administration.
- On 22 September 2010 the Company entered into a conditional Business Sale Agreement to purchase the API Services and Solutions business through a wholly owned subsidiary (Acquisition).

This business is one of Australia's leading security businesses and provides locksmith services including the design and installation of masterkey services and servicing and keying of lock systems

The purchase price for the Acquisition is \$13.92m subject to post-completion working capital and assumed finance debt adjustments. The purchase price will be satisfied by the payment of cash and the assumption of certain debts totaling \$1.359m. The purchase price will be funded through QRS' existing cash holdings and debt facilities provided by a financial institution and Helmsman Capital Fund Trust IIB (Helmsman).

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**NOTE 27: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)**

Completion of the transaction is scheduled for 30 September 2010, subject to the conditions precedent to the Acquisition being satisfied or waived by that time. The conditions precedent include QRS and Helmsman board and committee approvals, certain approvals from financiers, consents to the assignments of important contracts, no material adverse change in the business assets, transfer of certain key employees and QRS obtaining satisfactory warranty insurance.

The Acquisition is expected to be earnings per share positive for QRS and will create a business with 23 branch locations throughout Australia, this level of market saturation in the Australian security market will assist in the delivery of QRS existing products along with the ongoing delivery of API's locksmith products and services.

Shareholder approval is not required for the Acquisition but QRS will be seeking shareholder approval at its AGM to allow Helmsman the right to convert the debt provided for the acquisition into shares in QRS. The terms of this proposed conversion arrangement is still to be agreed but will be detailed in the notice for the AGM.

These events for the Company reinforced the Board's commitment to expand the Company and grow revenues, concurrent with the commitment to ensure cash flow negative business units are exited with the ultimate aim to unlock shareholder value

**NOTE 28: RELATED PARTY TRANSACTIONS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.			
Transactions with related parties:			
<b>a. Entity which has a significant influence on the Group</b>			
Loan Payable to Helmsman Capital Fund Trust IIB. The key terms are described in Note 19(b) to the financial statements.		1,445	1,430
Interest expense	4	180	30

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT**

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

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

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>			
Cash and cash equivalents	11	6,920	1,675
Loans and receivables	12	4,785	3,496
Available-for-sale financial assets:			
— Equity investments	14	-	3,270
<b>Total Financial Assets</b>		11,705	8,441
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
— Trade and other payables	18	3,188	2,400
— Borrowings	19	2,882	3,065
<b>Total Financial Liabilities</b>		6,070	5,465

**Financial Risk Management Policies**

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk.

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

**Specific Financial Risk Exposures and Management**

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

**a. Credit risk**

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

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the invoice date.

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**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

*Credit Risk Exposures*

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Australia. Details with respect to credit risk of Trade and Other Receivables are provided in Note 12 and Note 25.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 11.

Credit risk related to balances with banks and other financial institutions is managed by the RAC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities.

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents		
— AA Rated (NAB Savings		
Maximiser & Term Deposit		
Account)	6,920	1,479
	<hr/>	<hr/>
	6,920	1,479

**b. Liquidity risk**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months.

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

*Financial Liability and Financial Asset Maturity Analysis*

	<b>Within 1 Year</b>		<b>1 to 5 Years</b>		<b>Over 5 Years</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Consolidated Group</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities due for payment</b>								
Debtor Finance facility and loans	555	822	-	-	-	-	555	822
Letters of credit	887	680	-	-	-	-	887	680
Trade and other payables (excluding est. annual leave)	3,029	2,179	-	-	-	-	3,029	2,179
Finance lease liabilities	34	102	-	31	-	-	34	133
Other loans	-	-	1,804	1,971	-	-	1,804	1,971
<b>Total contractual outflows</b>	<b>4,505</b>	<b>3,783</b>	<b>1,804</b>	<b>2,002</b>	<b>-</b>	<b>-</b>	<b>6,309</b>	<b>5,785</b>
less bank overdrafts	(516)	(822)	-	-	-	-	(516)	(822)
<b>Total expected outflows</b>	<b>3,989</b>	<b>2,961</b>	<b>1,804</b>	<b>2,002</b>	<b>-</b>	<b>-</b>	<b>5,793</b>	<b>4,963</b>
<b>Financial assets — cash flows realisable</b>								
Cash and cash equivalents	6,920	1,675	-	-	-	-	6,920	1,675
Trade, other and loans receivables	4,902	3,496	-	-	-	-	4,902	3,496
Other investments	-	-	-	3,270	-	-	-	3,270
Investments (controlled entities)	-	-	-	287	-	-	-	287
<b>Total anticipated inflows</b>	<b>11,822</b>	<b>5,171</b>	<b>-</b>	<b>3,557</b>	<b>-</b>	<b>-</b>	<b>11,822</b>	<b>8,728</b>
<b>Net (outflow)/inflow on financial instruments</b>	<b>7,833</b>	<b>2,210</b>	<b>(1,804)</b>	<b>1,555</b>	<b>-</b>	<b>-</b>	<b>6,029</b>	<b>3,765</b>

*Financial Assets Pledged as Collateral*

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 19(b) for further details.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**c. Market Risk**

**i. Interest rate risk**

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

The net effective variable interest rate borrowings (ie unhedged debt) expose the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following floating interest rate financial liabilities:

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Floating rate instruments</b>		
Debtor finance facility	488	811
Credit card debt	28	11
Other loan – Helmsman Capital Fund		
Trust IIB	1,445	1,430
	<b>1,961</b>	<b>2,252</b>

**ii. Foreign exchange risk**

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

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

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

<b>Consolidated Group</b>	<b>Net financial assets/(liabilities) in AUD \$'000</b>			
	<b>2010</b>		<b>2009</b>	
<b>Functional currency of Group entity</b>	<b>USD</b>	<b>Others</b>	<b>USD</b>	<b>Others</b>
<b>Financial assets</b>				
Trade and other receivable	620	nil	-	nil
<b>Financial liabilities</b>				
Trade and other payables	(2,917)	nil	(1,327)	nil
<b>Statement of financial position exposure</b>	<b>(2,297)</b>	<b>Nil</b>	<b>(1,327)</b>	<b>nil</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

*Forward Exchange Contracts*

The Group has open forward exchange contracts at balance date relating to highly probable forecast transactions and recognised financial assets and financial liabilities. These contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

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

	<b>Notional Amounts</b>		<b>Average Exchange Rate</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Consolidated Group</b>	<b>\$000</b>	<b>\$000</b>	<b>\$</b>	<b>\$</b>
<b>Buy USD / Sell AUD</b>				
Settlement — less than 6 months	29	302	0.8499	0.8015
— 6 months to 1 year	-	-	-	na

Forward exchange contracts are measured at fair value with gains and losses taken to the statement of comprehensive income.

**iii. Price risk**

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is not subject to commodity price risk.

*Sensitivity Analysis*

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



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

	<b>Consolidated Group</b>	
	<b>Profit</b>	<b>Equity</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Year ended 30 June 2010</b>		
+/-2% in interest rates	+/- 162	+/- 162
+/-22% in \$A/\$US	+/- 433	+/- 433
<b>Year ended 30 June 2009</b>		
+/-35% in interest rates	+/- 3	+/- 3
+/-20% in \$A/\$US	+/- 328	+/- 328

*Net Fair Values*

**Fair value estimation**

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

		2010		2009	
		Net Carrying Value \$'000	Net Fair Value \$'000	Net Carrying Value \$'000	Net Fair Value \$'000
<b>Consolidated Group</b>					
<b>Financial assets</b>					
Cash and cash equivalents	(i)	6,920	6,920	1,675	1,675
Trade and other receivables	(i)	4,785	4,785	3,496	3,496
Investments — available for sale	(ii)	-	-	3,270	3,270
<b>Total financial assets</b>		<b>11,705</b>	<b>11,705</b>	<b>8,441</b>	<b>8,441</b>
<b>Financial liabilities</b>					
Trade and other payables	(i)	3,029	3,029	2,400	2,400
Other Borrowings	(iii)	1,473	1,473	1,441	1,441
Lease liability	(iii)	34	34	133	133
Letters of Credit	(iii)	887	887	680	680
NAB Debtor Finance Facility	(iii)	488	488	811	811
<b>Total financial liabilities</b>		<b>5,911</b>	<b>5,911</b>	<b>5,465</b>	<b>5,465</b>

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is not considered a financial instrument.
- (ii) The directors have determined that the fair values of the available-for-sale financial assets carried at cost and at recoverable amount cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. Consequently, such assets are recognised at cost and their fair values have also been stated at cost in the table above.
- (iii) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair values of fixed rate bank debt will differ to the carrying values.

*Financial Instruments Measured at Fair Value*

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**2010**

**Financial assets:**

There are no financial assets that are measured at fair value through profit and loss in the statement of financial position as at 30 June 2010.

<b>2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets:</b>				
<i>Financial assets at fair value through profit or loss:</i>				
<i>Available-for-sale financial assets:</i>				
— unlisted investments	-	-	3,270	3,270
	-	-	3,270	3,270

**NOTE 30: RESERVES**

a. *Option Reserve*

The option reserve records items recognised as expenses on valuation of employee share options.

**NOTE 31: COMPANY DETAILS**

The registered office of the company is:

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

The principal places of business are:

- QRSciences Holdings Limited  
5/435 Williamstown Road  
PORT MELBOURNE VIC 3207
- QRSciences Security Pty Ltd  
5/435 Williamstown Road  
PORT MELBOURNE VIC 3207

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**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 20 to 73, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Director .....

Richard Stokes

Dated: 30 September 2010

Level 10, 530 Collins Street

Melbourne VIC 3000

T +61 (0)3 8635 1800

F +61 (0)3 8102 3400

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF QRSCIENCES HOLDINGS LIMITED**

We have audited the accompanying financial report of QRSciences Holdings Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of QRSciences Holdings Limited and Controlled Entities 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 2010 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 14 to 18 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of QRSciences Holdings Limited for the year ended 30 June 2010, complies with s 300A of the *Corporations Act 2001*.



MOORE STEPHENS  
Chartered Accountants



Grant Sincock  
Partner

Melbourne, 30 September 2010

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**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

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

**1. Shareholding**

<b>a. Distribution of Shareholders</b>	<b>Number</b>
Category (size of holding)	<b>Ordinary</b>
1 – 1,000	207
1,001 – 5,000	304
5,001 – 10,000	151
10,001 – 100,000	495
100,001 – and over	143
	1,300

b. The number of shareholdings held in less than marketable parcels is 591.

c. The names of the substantial shareholders listed in the holding company's register as at 17 September 2010 are:

	<b>Number</b>
Shareholder	<b>Ordinary</b>
Bond Street Custodians Limited (Helmsman Capital Fund Trust IIA)	44,183,630
Citicorp Nominees Pty Limited	12,528,397
Mr Kevin Lee Russeth	5,150,000

**d. Voting Rights**

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

Ordinary shares

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

Redeemable and converting preference shares

- These shares have no voting rights.

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**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

**e. 20 Largest Shareholders — Ordinary Shares**

<b>Name</b>	<b>Number of Ordinary Fully Paid Shares Held</b>	<b>% Held of Issued Ordinary Capital</b>
1. Bond Street Custodians Limited (Helmsman Cap Fund Tst IIA)	44,183,630	29.12
2. Citicorp Nominees Pty Limited	12,528,397	8.26
3. Mr Kevin Lee Russeth	5,150,000	3.39
4. HSBC Custody Nominees (Australia) Limited	3,939,953	2.60
5. Cherryoak Investments Pty Ltd <C&N Family A/c>	3,599,891	2.37
6. Nineteen25 Pty Limited <VH Superannuation Fund A/c>	3,500,000	2.31
7. Mr Robert George Halverson & Mrs Margaret Joan Halverson <Halverson Super Fund A/c>	3,181,492	2.10
8. Mr Richard James Stokes & Mrs Lisa Maree Stokes <Stokes Super Fund A/c>	2,728,352	1.80
9. Mr Howard Whitesmith	2,000,000	1.32
10. Mrs Helen Elizabeth Oddy	1,866,228	1.23
11. BTG International Ltd	1,733,557	1.14
12. Lawrence Crowe Consulting Pty Ltd <L C C Super Fund A/c>	1,700,000	1.12
13. Mr Christopher Colin Fryar & Mr Adon John Nardelli <C Fryer & A Nardelli SF AC>	1,550,000	1.02
14. Mr Henry Michael Noonan <Noonan Super Fund A/c>	1,518,700	1.00
15. Mr Bradley William Smith	1,436,727	0.95
16. QRSciences Holdings Limited <Employee Incentive Plan A/c>	1,369,712	0.90
17. Capital Concerns Pty Limited <Logue Family Super Fund A/c>	1,020,000	0.67
18. Mr Daryl Ponsford	1,000,250	0.66
19. Mrs Coleen Hart	1,000,000	0.66
20. Trilon Nominees Ptd Ltd <TL Engineering Group SF A/c>	1,000,000	0.66
	<b>96,006,889</b>	<b>63.27</b>

2. The name of the company secretary is Jamie Taylor
3. The address of the principal registered office in Australia is 5/435 Williamstown Road, Port Melbourne VIC 3207. Telephone +61 3 9681 9854
4. Registers of securities are held at the following addresses  
Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace, Perth WA 6000
5. **Stock Exchange Listing**  
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.



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**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

**6. Unquoted Securities**

Options over Unissued Shares

The following are unquoted securities in the Company:

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