

**SOMNOMED LIMITED**  
**ABN 35 003 255 221**  
**ASX Preliminary final report – 30 June 2007**

**Lodged with the ASX under Listing Rule 4.3A**

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**SomnoMed Limited**  
**Year ended 30 June 2007**  
**Results for Announcement to the Market**

				\$
<b>Revenue</b> from ordinary activities	Increase	18.7%	to	2,422,414
<b>Loss</b> from ordinary activities after tax attributable to members	Decrease	21.8%	to	3,274,364
<b>Net Loss</b> for the period attributable to members	Decrease	21.8%	to	3,274,364

**Additional dividend/distribution information**

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2007 are as follows:

<b>Dividends/distributions</b>	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

The Board has resolved that no dividend will be paid for the year ended 30 June 2007.

**Record date** for determining entitlements to the dividend

N/A
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**Brief explanation of figures**

The fiscal year 2006/2007 was marked by the restructuring and refinancing of the Company which took place at the end of the first half-year period and the reorganization during the second half of the fiscal year. A global strategy was developed and significant changes were implemented in different countries, affecting all aspects of our business and creating a base for the future growth of our business on a global scale.

The operating loss of the Company, before corporate overheads and non-cash items, dropped by over 47% compared to the previous year from \$3.26 million to \$1.59 million. An even better picture emerges if the half yearly trend is observed – the operating loss in the January to June 2007 period was \$547,000 compared to a loss of \$1,824,000 in the same six months period in 2005/06 and a loss of over \$1,043,000 in the July to December 2006 half. This means there has been a 70% reduction in the second half -year operating losses before corporate overheads and non-cash items.

Corporate overheads in the last six months were reduced by about a third from \$493,000 in the first half to \$353,000 in the second half resulting in an EBITDA loss of \$900,000 for the January to June 2007 period compared to a EBITDA loss of \$1.54 million for the July to December half and \$2.23 million loss in the January to June 2006 half. Whilst the company was still generating a negative EBITDA in the last six months we are content with a year on year reduction in losses of over 40% and the losses in the second half of the current year were 41% lower than over the first half of the year.

The second half of the fiscal year was dedicated to implement changes in our existing operations in Australia and the US and to prepare the ground for the future expansion of the company in Europe and Asia.

In our Australian operation the whole sales and management team were replaced during the second half of FY 06/07. A completely new team was in control of the operation at the end of the fiscal year. Sales started to recover and show strong growth in the last two months of the year to levels, which had not been achieved since the collapse of the Snorestop, the dominant customer of Somnomed in 2005/06. With the new team in place we believe a broadening of our customer basis will be achieved. This allows us to look confident into the future for our Australian operation.

The US operation also underwent a number of changes affecting Marketing, Sales and Finance. Sales in the US grew by 34% in the second half of the fiscal year and were more than double the level achieved in the corresponding half -year period in 2005/06. In the second half of 2006/07 the US sales exceeded Australian sales for the first time. A number of initiatives have been designed to generate continued growth in 2007/08 in the US market.

As a result of our revised strategy we are also in process of broadening our US distribution through the licensing of selected major dental lab chains. We are aiming to finalize 3 to 5 license agreement during the course of the 2007/08 year, which will significantly increase the number of US dentists using the Somnomed MAS.

A strategy has been designed for Europe and Asia and is in process of being implemented. A co-operation agreement has been signed with a dental lab in Germany which will function as our central lab in Europe and provide training, logistics and supply services to Somnomed license partners we intend to appoint in every major country in Europe over the next twelve to eighteen months. These license partners will make our product and function as service base for (warranty) repairs, reworks and resets.

At the time of writing this report negotiations are underway to set up a service base in South East Asia and to enter into an agreement with a distribution partner for South East Asia.

The Company also acquired 50% of the global IP in a new soft polymer through the acquisition of a half share in SMH Biomaterial AG. SMH Flex S, the new material, which will be used to make Somnomed MAS as well as distributed to third parties around the globe, has significant competitive advantages over other materials used for dental products such as positioners, bruxing devices and MAS. It also could be used for other medical products such as hearing aids. Somnomed will be responsible for the global distribution of SMH Flex H.

Over the last six months the Company searched through the UK recruitment agency Global Search Partners for a new chief executive officer. At the beginning of the new financial year the Company announced the appointment of Ralf Barschow as the new CEO. Ralf will commence on 3 September 2007. He has over twenty years experience in senior positions in leading international corporations in the dental industry. Ralf is a German citizen who lived in various places in Europe, Hong Kong and Singapore. He currently resides with his Australian born wife in Melbourne and will operate from Somnomed's offices in Sydney.

During the year the Company settled a long running intellectual property dispute. The legal costs and issue of 11.5 million shares as part of the settlement were written off and expensed. These amounts substantially increased the share and option expense and administrative expenses. The directors also decreased the period over which the book value of the laboratory and fit out of the Crows Nest premises is being written off to bring this in line with its remaining tenancy in the building.



**SomnoMed Limited**  
**Preliminary consolidated balance sheet**  
**As at 30 June 2007**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash	3,204,681	2,310,382
Receivables	381,092	316,636
Inventory	7,738	17,845
<b>TOTAL CURRENT ASSETS</b>	<u>3,593,511</u>	<u>2,644,863</u>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	675,845	984,697
Intangible Assets	387,555	439,514
<b>TOTAL NON-CURRENT ASSETS</b>	<u>1,063,400</u>	<u>1,424,211</u>
<b>TOTAL ASSETS</b>	<u>4,656,911</u>	<u>4,069,074</u>
<b>CURRENT LIABILITIES</b>		
Payables	613,980	446,053
Interest bearing liabilities	91,777	156,922
Provisions	79,743	137,790
<b>TOTAL CURRENT LIABILITIES</b>	<u>785,500</u>	<u>740,765</u>
<b>NON CURRENT LIABILITIES</b>		
Interest bearing liabilities	-	93,953
<b>TOTAL NON CURRENT LIABILITIES</b>	<u>-</u>	<u>93,953</u>
<b>TOTAL LIABILITIES</b>	<u>785,500</u>	<u>834,718</u>
<b>NET ASSETS</b>	<u><b>3,871,411</b></u>	<u><b>3,234,356</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
Contributed equity	18,572,695	14,910,397
Reserves	925,527	676,407
Accumulated losses	(15,626,811)	(12,352,448)
<b>TOTAL EQUITY</b>	<u><b>3,871,411</b></u>	<u><b>3,234,356</b></u>

**SomnoMed Limited**  
**Preliminary consolidated statement of changes in equity**  
**For the year ended 30 June 2007**

<b>Economic Entity</b>	<b>Issued Capital</b>	<b>Share Option Reserve</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2005</b>	14,910,397	455,139	-	(8,164,144)	7,201,392
Share option reserve on recognition of remuneration options	-	115,811	-	-	115,811
Profit/(loss) attributable to members of parent entity	-	-	-	(1,862,781)	(1,862,781)
<b>Balance at 31<sup>st</sup> December 2005</b>	14,910,397	570,950		(10,026,925)	5,454,422
<b>Balance at 1<sup>st</sup> January 2006</b>	14,910,397	570,950		(10,026,925)	5,454,422
Share option reserve on recognition of remuneration options		93,069			93,069
Adjustments from translation of foreign controlled entities	-	-	12,388	-	12,388
Profit /(loss) attributable to members of parent entity	-	-	-	(2,325,523)	(2,325,523)
<b>Balance at 30 June 2006</b>	14,910,397	664,019	12,388	(12,352,448)	3,324,356
<b>Balance at 1<sup>st</sup> July 2006</b>	14,910,397	664,019	-	(12,352,448)	3,324,356
Share issued during the year	3,797,001	-	-	-	3,797,001
Costs associated with share issues	(282,887)	-	-	-	(282,887)
Share option reserve on recognition of remuneration options	-	54,999	-	-	54,999
Adjustments from translation of foreign controlled entities	-	-	3,505	-	3,505
Profit/(loss) attributable to members of parent entity	-	-	-	(1,725,959)	(1,725,959)
<b>Balance at 31<sup>st</sup> December 2006</b>	18,424,511	719,018	15,893	(14,078,407)	5,081,015
<b>Balance at 1<sup>st</sup> January 2007</b>	18,424,511	719,018	15,893	(14,078,407)	5,081,015
Share issued during the year	253,000	-	-	-	253,000
Costs associated with share issues	(104,816)	-	-	-	(104,816)
Share option reserve on recognition of remuneration options	-	317,161	-	-	317,161
Adjustments from translation of foreign controlled entities	-	-	(126,545)	-	(126,545)
Profit/(loss) attributable to members of parent entity	-	-	-	(1,548,404)	(1,548,404)
<b>Balance at 30<sup>th</sup> June 2007</b>	18,572,695	1,036,179	(110,652)	(15,626,811)	3,871,411

**SomnoMed Limited**  
**Preliminary consolidated statement of cash flows**  
**For the year ended 30 June 2007**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Cashflows from operating activities</b>		
Receipts from customers	2,260,352	1,557,357
Payments to suppliers and employees	(4,749,908)	(5,529,424)
Interest received	148,946	254,168
Interest Paid	(15,791)	(29,937)
Net cash inflow/(outflow) from operating activities	<u>(2,356,401)</u>	<u>(3,747,836)</u>
<b>Cashflows from investing/financing activities</b>		
Proceeds from issue of shares-net	3,409,298	-
Proceeds from sale of fixed assets	500	-
Repayments of borrowings	(159,098)	(160,879)
Payments for property, plant and equipment	-	(416,507)
Net cash inflow/(outflow) from investing/financing activities	<u>3,250,700</u>	<u>(577,386)</u>
Net increase/(decrease) in cash held	894,299	(4,325,222)
Cash at the beginning of the financial year	2,310,382	6,635,604
Cash at the end of the financial year	<u>3,204,681</u>	<u>2,310,382</u>

The cash balances at 30 June 2006 and 30 June 2007 are represented by cash at bank and money market securities.

**RECONCILIATION OF OPERATING (LOSS) AFTER INCOME  
TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

Operating (Loss) after income tax	(3,274,364)	(4,188,304)
Share and Option expense	625,161	208,880
Loss on sale fixed assets	1,115	-
Depreciation and amortization	347,176	142,016
Net exchange differences	(111,020)	12,388
<b>Change in operating assets and liabilities</b>		
(Increase)/Decrease in inventories	10,107	(17,845)
(Increase)/Decrease in receivables	(64,456)	(227,304)
Increase/(Decrease) in other payables	186,139	195,267
Increase/decrease in provisions	(76,259)	127,066
	<u>(2,356,401)</u>	<u>(3,747,836)</u>

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements (continued)**  
**For the year ended 30 June 2007**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial report covers the economic entity of SomnoMed Limited and its controlled entities, and SomnoMed Limited as an individual parent entity. SomnoMed Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of SomnoMed Limited and controlled entities, and SomnoMed Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards.

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

**Accounting Policies**

a. **Principles of Consolidation**

A controlled entity is any entity controlled by SomnoMed Limited. Control exists where SomnoMed Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with SomnoMed Limited to achieve the objectives of SomnoMed Limited.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b. **Income Tax**

The charge for current income tax expense is based on the profit for the period adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. **Property, Plant and Equipment**

**Plant and equipment**

Plant and equipment are recorded at cost.

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, which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	5%-33 1/3%

### Change in accounting estimate:

Somnomed has historically depreciated its fixture & fittings relating to the leased premises at a depreciation rate of 5% -33 1/3%. As at 1 July 2006, the company's directors determined that the lease of the premises may not be renewed after August 2009 and that the remaining value of the assets should be written off over the shorter period. The effect of the change in accounting estimate in the current period is an increase in depreciation expense and accumulated depreciation of \$120,098. In future years, the annual depreciation charge for fixture & fittings relating to the leased premises will be increased by approximately \$120,000.

### d. Leases

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.

### e. Impairment of Assets

At each reporting date, the economic entity assesses whether there is any indication that an asset may be impaired. Where an indicator or impairment exists, the economic entity makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

### f. Research and Development Expenditure

Research and Development costs are charged to profit/(loss) before income tax as incurred.

### g. Intangibles

Patents and intellectual property are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

### h. Employee Benefits

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

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

### i. Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 30 days to maturity.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### j. Revenue

Revenue from the sale of goods is recognised upon the dispatch of goods to the customers.

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

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

### k. 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 Australian 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.

### l. Comparative Figures

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

## Events occurring after reporting date

Since the end of the financial year, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial years.

## Associates and Joint Venture entities

Nil

## Contingent liabilities

At 30<sup>th</sup> June 2007 no contingent liabilities existed.

## Other significant information

N/A.

## Foreign Accounting standards

N/A

## NTA Backing

	2007	2006
Net tangible asset backing per ordinary share	0.7 cents	2.4 cents

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements (continued)**  
**For the year ended 30 June 2007**

**Segment Operations**

The Company operations during the year related to the commercialisation of a mandibular advancement splint primarily in Australia and the United States.

**Primary Reporting – Business Segments**

The economic entity's operations during the period related to the production and sale of a mandibular advancement splint, which is the only business segment.

**Secondary Reporting – Geographical Segments**

	Segment Revenues from External Customers	Carrying Amount of Segment Assets	Acquisitions of Non-current Segment Assets
	2006	2006	2006
	\$	\$	\$
Geographical location:			
Australia	1,832,928	3,384,434	63,304
USA	207,161	684,640	353,203
	<u>2,040,089</u>	<u>4,069,074</u>	<u>416,507</u>
	2007	2007	2007
	\$	\$	\$
Geographical location:			
Australia	1,258,807	4,112,842	1,585
USA	1,163,607	544,069	23,208
	<u>2,422,414</u>	<u>4,656,911</u>	<u>24,793</u>

**Loss per Share**

The following reflects the loss and share data used in the calculations of basic and diluted loss per share.

	2007	2006
Net loss used in calculating basic and diluted earnings per share	(3,274,363)	(4,188,304)
Basic and diluted (loss) per share (cents per share)	(0.9)	(2.2)
Weighted average number of shares used in the calculation of		
basic loss per share	358,140,571	187,433,726
diluted loss per share	359,580,536	187,433,726
Shares on issue at year end	511,100,064	114,900,016
Number of options on issue at year end – each option is exercisable at between 1 cent and 48 cents per share and converts to one ordinary share	33,978,000	7,673,000

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for options that have an exercise price below the average market price for the year.

**Audit**

This report is based on accounts, which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review. -Nil

Description of dispute or qualification if the accounts have been audited or subjected to review -Nil



.....  
(Director)

Date: 30th August 2007

Print name: P Neustadt

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