



The Revolutionary  
SomnoMed MAS™

Annual Report

2005



## REPORT OF THE CHAIRMAN

Dear Shareholder,

The past year has been a most interesting, and in many respects, a challenging year for SomnoMed. During the year we have successfully made the transition from a suspended cash box to an emerging medical device company with global growth prospects. In August 2004, we completed a capital raising to facilitate the commercialisation of the SomnoMed MAS device, with a view to bringing health benefits to sufferers of OSA and snoring. Over time we hope to deliver appropriate financial rewards to our shareholders.

Our original shareholders and those who participated in the equity raising will recall at that time we were a company with cash in the bank, a small management staff, no historical revenue line on which to rely for growth and no laboratory from which to produce our clinically proven and superior MAS device. In short we had cash in the bank from which to build a business and an initial business plan, constructed with no evidence of historical performance.

Accordingly our key initial challenges were fourfold:

- to complete the fit-out of our office accommodation,
- to build a state-of-the-art laboratory in Sydney,
- to employ a skilled staff to both manufacture and sell our product, and
- To develop the appropriate pathway linking the medical and dental professions as the channels through which to distribute our product.

On behalf of your Board, I am pleased to report that each of these key initiatives has been successfully implemented.

We commenced sales of devices manufactured from our new laboratory in December 2004 and it is fair to say our early sales performance was disappointing to the Board. However, over the last six months we have experienced strong month on month growth in sales. The annualised run rate of unit sales is currently around 4,000 units.

With the quality controls we have been able to instigate through our Sydney laboratory, the Board resolved not to proceed with the development of a laboratory in Victoria but rather to establish alternative and competitive manufacturing sources. This proved to be a sound decision, as it has preserved capital and provided us with flexibility to meet the strong emerging rate of sales.

### Overseas Development

During the year the Board allocated resources to initial market appraisals in the more mature dental sleep medicine segments in the U.S.A., Germany, and the U.K. with primary emphasis on the U.S.A. market. The reception in the U.S.A. to our test marketing to key opinion leaders of this sector of sleep medicine has been most encouraging.

### Outlook

In this coming year we will continue to build strongly on the momentum we now have in Australia. This drive will be further enhanced by our entry into the U.S.A. market. The Board has approved an initial entry strategy into the U.S.A. market. Sales into this market will commence within the next month and it is planned for the Company to be fully established in the U.S.A. by June 2006, located in Dallas, Texas.

We have a motivated and committed staff and I thank them all for their efforts and support in establishing the building blocks for the sound future our Company can now anticipate with confidence.

Yours faithfully,



Robert L Stovold  
Chairman

## DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the financial year ended 30 June 2005.

### Directors

The names of directors in office at any time during or since the end of the year are:

John F Diddams (retired 21<sup>st</sup> September 2004)  
Terence A Flitcroft (retired 16<sup>th</sup> July 2004)  
Samuel M Gazal (retired 22<sup>nd</sup> July 2004)  
Charles J Gullotta  
Rischeh Kumarasinghe  
Peter C Spencer (retired 22<sup>nd</sup> December 2004)  
Robert L Stovold  
Geoffrey H Stumbles  
Jonathan C Wright (appointed 24<sup>th</sup> March 2005)

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

### Principal Activities

The principal activity of the economic entity during the financial year was the commercialisation of the SomnoMed MAS. During the year the economic entity ceased its activities as an investor, after the purchase of Amelia Blue Pty Limited, which owned the intellectual property rights to the SomnoMed MAS.

There were no other significant changes in the nature of the economic entity's principal activities during the financial year.

### Operating Results

The consolidated loss of the economic entity amounted to \$3,266,637 (2004 loss - \$556,997).

In July 2004 the Company issued a prospectus to issue 40 million shares and raise \$12 million. These funds were raised in August 2004.

The Company completed its laboratory in Crows Nest in December 2004. The Company sold the SomnoMed MAS in Australia throughout the year and recently had FDA approval granted to commence selling the SomnoMed MAS in the United States.

### Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

### Significant Changes in State of Affairs

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Company during the reporting year.

### After Balance Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may affect:

- (i) The operations of the company and the entity that it controls
- (ii) The results of those operations
- (iii) The state of affairs of the Company in subsequent years.

### Future Developments

The Company will continue to produce and sell the SomnoMed MAS. The company intends to commence selling MAS overseas in the third quarter of the 2005-2006 financial year.

## DIRECTORS' REPORT (CONTINUED)

### Directors

#### **Robert L Stovold, Chairman (Non-executive), member of the Audit and Remuneration & Nominations Committees**

Bob Stovold is a qualified accountant with over 35 years experience in corporate management and mergers and acquisitions. For over 15 years he headed the mergers and acquisition division of two listed public companies, analysing, investing in and acquiring companies in a diverse range of industries.

Since 1980 he has been non-executive director of a number of listed and unlisted public companies and is also currently a director of Blackmores Limited, Port Douglas Reef Resorts Limited and Canberra Investment Corporation Limited.

#### **Jonathan C. Wright, Managing Director & CEO, BSc, PhD, Grad. Dip. Marketing, MAICD**

Dr Wright has over 16 years experience in successfully developing, launching and managing new medical technologies in global markets. His career in health care, in Australia and overseas, has involved both start-ups and multinationals. He has experience in research & development, clinical development, product development, manufacturing, sales and marketing.

He was previously CEO and Managing Director of Ambri Limited & Vice President of ResMed, which markets a treatment for Obstructive Sleep Apnoea internationally. Prior to ResMed, he was Director of New Business Developments – Asia Pacific for Johnson & Johnson. Jonathan holds a PhD in Science from Sydney University and a Graduate Diploma in Business from the University of Technology, Sydney. He has served on the boards of ResMed (Singapore) and Ausbiotech Limited.

#### **Rischeh Kumarasinghe, BSc, MSc, MBA, MAICD**

#### **Director (Non-executive), Chairman of the Strategy & IP Committee and member of Remuneration & Nominations Committee**

Rischeh has extensive experience in the sleep disordered breathing market (including Obstructive Sleep Apnoea), having been General Manager of ResMed's Asia Pacific Region from 1996 to 2002. Rischeh has first hand knowledge of the development of OSA treatment markets, having established CPAP (Continuous Positive Airway Pressure) in Japan, New Zealand, Singapore and Malaysia for ResMed during that period.

Management roles at Pacific Dunlop's Nucleus Ltd Division for seven years (1985 to 1992) provided excellent experience in the medical device market, with an involvement in all aspects of the business including manufacturing, building operations in nascent markets, marketing and distribution. Rischeh is a management consultant, specialising in strategy and business development, with a primary focus in the medical devices sector.

#### **Charles J Gullotta, BCom, LLB, CPA, FSIA**

#### **Director (Non-executive), Chairman of the Audit Committee, member of the Strategy & IP and Remuneration & Nominations Committees**

Charles has been a non-executive director of the Company since 1995.

Charles has 20 years of broadly based commercial experience across a number of industries, after commencing his career in investment banking at Hambros Australia Limited in 1984. He has been an active investor and participant in a range of private and public companies.

Charles is a director of Winchester Associates Pty Limited, a licensed investment advisor he co-founded, and Consultel Holdings Pty Limited, a telecommunication advisory group.

#### **Geoffrey H Stumbles, BA, FAICD**

#### **Director (Non-executive), Member of the Strategy & IP, Audit and Remuneration & Nominations Committees**

Until 1990, Geoff was a director of Corporate Finance at the Elders Finance Group. He has over 30 years experience in merchant banking in Australia, UK and USA, with banks such as the First National Bank of Chicago. He has also acted as an advisor on venture capital matters to the international management consulting firm, The LEK Partnership.

Geoff is currently a non-executive director of Transamerica Insurance Marketing Asia Pacific Pty Limited and a partner of corporate advisory firm, Heath Fletcher & Associates. From 1<sup>st</sup> October 2005 Mr Stumbles will become Chief Operating Officer of the Company.

### **Company Secretary**

#### **Terence A. Flitcroft B Comm CA FSIA**

Terry has been Company Secretary since 1995. He was a director of the Company from 1995 until July 2004.

## DIRECTORS' REPORT (CONTINUED)

### Board Member's Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date	
		Appointed	Resigned
Jonathan C Wright	Ambri Limited	18 Sept 03	27 Sept 04
Robert L Stovold	Blackmores Limited	6 Aug 96	Current
	Port Douglas Reef Resorts Ltd	4 Jun 97	Current
	Canberra Investment Corporation Ltd	15 Aug 03	Current
	York Group Ltd	1 Apr 95	31 Jan 05
	Independent Practitioner Network Ltd	21 Mar 03	31 Aug 04
Charles J Gullotta	No other listed public company directorship		
Rischeh Kumarasinghe	No other listed public company directorship		
Geoffrey H Stumbles	No other listed public company directorship		

### Directors' Interests in Securities

As at the date of this report, details of Directors who hold shares or options in the company for their own benefit or who have an interest in holdings through a third party are detailed below.

Director	Options over	
	Shares	Ordinary Shares
Robert L Stovold	498,000	300,000*
Charles J Gullotta	2,074,210*	300,000*
Rischeh Kumarasinghe	0	300,000
Geoffrey H Stumbles	120,000	300,000**
Jonathan C Wright	50,000	1,450,000

\* Held by an entity associated with the Director and in which he has a financial interest

\*\* Mr Stumbles will be issued with 1,200,000 additional options, subject to shareholder approval at the annual general meeting of the company.

### Meetings of Directors

The numbers of meetings of the Company's Board of Directors and each Board committee held during the year to 30 June 2005 and the numbers of meetings attended by each director were:-

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS					
			AUDIT COMMITTEE		REMUNERATION & NOMINATIONS COMMITTEE		STRATEGY & IP COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
John Diddams	7	5	-	-	-	-	-	-
Terence Flitcroft	2	2	-	-	-	-	-	-
Samuel Gazal	2	2	-	-	-	-	-	-
Charles Gullotta	20	19	2	2	1	1	4	4
Rischeh Kumarasinghe	20	16	-	-	1	1	-	-
Peter Spencer	9	7	-	-	-	-	-	-
Robert Stovold	20	20	2	2	1	1	4	4
Geoffrey Stumbles	20	19	2	2	1	1	4	4
Jonathan Wright	5	5	-	-	-	-	-	-

## DIRECTORS' REPORT (CONTINUED)

### Indemnifying Directors or Officers

Each Director has entered into a Deed with the Company under which the Director is given access to documentation and in addition is:

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance.

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of SomnoMed Limited support and have adhered to key principles of corporate governance. Please refer to page 12 of this annual report for more information.

### Environmental regulations

The company's operations are not materially affected by environmental regulations.

### 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.

## DIRECTORS' REPORT (CONTINUED)

### Options

At the date of this report options that were granted over unissued shares in SomnoMed Limited during or since the end of the financial year by the company to directors or any of the five most highly remunerated officers and to employees as part of their remuneration are detailed below:

Optionholder	Exercise price (cents)	Options
<b>Directors/Specified Executives</b>		
Jonathan Wright	43	1,500,000
Peter Spencer	45	600,000
Stewart McClay	43	500,000
		<u>2,600,000</u>
<b>Other Employees</b>		
Christopher Bedford	48	100,000
Tasha Markwell	30	25,000
Matt White	30	20,000
Daniel Rosa	30	20,000
Walid Raad	30	25,000
Wataru Obuchi	30	20,000
Christian Rabatsch	30	10,000
Jean Doyle	30	5,000
David Harry	30	25,000
Jodi Burke	30	10,000
Louise Pollock	30	15,000
Emon Haque	30	5,000
Ahmed Halloumi	30	15,000
Rakesh Krishna	30	10,000
Chris Smith	30	10,000
Daria Kouznetsova	30	5,000
		<u>320,000</u>

At the date of this report there are 7,160,000 options on issue, each exercisable over 1 ordinary share on payment of between 30 cents and 48 cents per share. These can be exercised between 27<sup>th</sup> August 2006 and 27<sup>th</sup> August 2008.

No options have been exercised since the end of the last financial year.

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

On 30<sup>th</sup> August 2005 a total of 110,000 options were cancelled (of which 50,000 were held by Jonathan Wright and 20,000 were held by each of Peter Spencer, Ashley Anderson and John Truitt). On the same date a total of 220,000 options were issued to staff of the company.

Mr McClay resigned as an employee during July 2005 and 500,000 of the 1,000,000 options issued to him in September 2004 were cancelled. The remaining 500,000 of Mr McClay's options vested on resignation.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of SomnoMed Limited and for the executives receiving the highest remuneration.

#### Remuneration Policy

The remuneration policy of SomnoMed Limited has been designed to align director and executive 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 economic entity's financial results. The Board of SomnoMed Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity is set out below.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration & Nominations Committee which currently consists of all non-executive directors. All executives receive a total remuneration package which may include a base salary (commensurate with their expertise and experience), superannuation, fringe benefits, options and performance incentives. The Remuneration & Nominations Committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the company financial performance and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

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

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration & Nominations Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. 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. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors hold options in the company.

#### Performance Based Remuneration

As part of each executive director and executives' remuneration package there is a performance-based component, consisting of key performance indicators (KPI's). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPI's are set annually, with a certain level of consultation with directors/executives. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPI's target areas the Board believes will improve the performance of the company, 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.

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

In determining whether or not a KPI has been achieved, SomnoMed Limited bases the assessment on audited figures where appropriate.

## DIRECTORS' REPORT (CONTINUED)

### Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy should be effective in increasing shareholder wealth over the medium term.

The Board will review its remuneration policy annually to ensure it is effective.

### Performance Income as a Proportion of Total Remuneration

Executive directors and executives are paid performance based bonuses based on a proportion of their total remuneration package. The Remuneration & Nominations Committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and financial performance of the economic entity. The Remuneration & Nominations Committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

### Options Issued as Part of Remuneration for the year ended 30 June 2005

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to directors and executives of SomnoMed Limited to increase long term goal congruence between executives, directors and shareholders.

### Remuneration Options-Terms & Conditions

	Granted Number	Grant Date	Value per Option at Grant Date	First Exercise Price	Earliest Exercise Date	Last Exercise Date
<b>Parent Entity Directors</b>						
Jonathan Wright	1,500,000	24 September 2004	13.2 cents	43 cents	27 August 2006	27 August 2008
Peter Spencer	600,000	23 December 2004	13.3 cents	45 cents	27 August 2006	27 August 2008
<b>Specified Executive</b>						
Stewart McClay	1,000,000	24 September 2004	13.2 cents	43 cents	27 August 2006	27 August 2008

All grants of options vest on 27<sup>th</sup> August 2006. No options had vested at balance date.

Mr McClay resigned as an employee during July 2005 and 500,000 of the 1,000,000 options issued to him in September 2004 were cancelled. The remaining 500,000 of Mr McClay's options vested on resignation.

### Employment Contracts of Directors and Senior Executives

The employment conditions of the managing director, Jonathan Wright, the executive director and specified executives are formalised in contracts of employment. Other than the managing director, all executives are permanent employees of SomnoMed. No contract is for a fixed term. Each contract states it can be terminated by the company by giving up to three months notice and by paying a redundancy of between three to six months.

## DIRECTORS' REPORT (CONTINUED)

### Directors' Remuneration

The following table discloses the remuneration of Directors of the company and the consolidated entity for the year ended 30 June 2005, as specified for disclosure by AASB1046. The information contained in this table is audited.

Director	Salary & Fees	Superannuation	Options <sup>(1)</sup>	Other	Total
Samuel Gazal					
-2005	-	-	-	-	-
-2004	-	-	-	-	-
Terence Flitcroft					
-2005	-	2,250 <sup>(2)</sup>	8,127	25,000 <sup>(2)</sup>	35,377
-2004	-	-	1,473	9,083 <sup>(2)</sup>	10,556
Robert Stovold					
-2005	50,000	4,500	24,381	-	78,881
-2004	16,667	1,500	4,419	-	22,586
Charles Gullotta					
-2005	31,250	2,813	24,381	-	58,444
-2004	8,333	750	4,419	-	13,502
Peter Spencer <sup>(3)</sup>					
-2005 Non-executive	13,750	1,238	24,381	-	39,369
-2005-Executive	98,770	8,889	23,812	-	131,471
-2004	4,167	375	4,419	-	8,961
Rischeh Kumarasinghe					
-2005	31,250	2,813	24,381	-	58,444
-2004	4,167	375	4,419	-	8,961
Geoffrey Stumbles					
-2005	31,250	2,813	24,381	-	58,444
-2004	8,333	750	4,419	-	13,502
John Diddams					
-2005	56,000	8,476	33,600	250,000 <sup>(4)</sup>	348,076
-2004	-	-	-	200,000 <sup>(6)</sup>	200,000
Jonathan Wright <sup>(5)</sup>					
-2005	181,922	7,241	69,148	-	258,311
TOTAL 2005	494,192	41,033	256,592	275,000	1,066,817
TOTAL 2004	41,667	3,750	23,568	209,083	278,068

(1) The option amounts disclosed are based on the assessed fair value at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value allocated to each reporting period.

(2) For company secretarial services

(3) Dr Spencer resigned as a non executive director on 23<sup>rd</sup> December 2004 and became an executive

(4) Amount payable on resignation

(5) This amount relates to Dr Wright's remuneration as an executive. Dr Wright was appointed as an executive on 15<sup>th</sup> December 2004 and as a director of the company on 24<sup>th</sup> March 2005 and was entitled to total remuneration of \$56,250 between 24<sup>th</sup> March and 30<sup>th</sup> June 2005.

(6) For fees to an entity associated with Mr Diddams

## DIRECTORS' REPORT (CONTINUED)

### Executives' Remuneration

The following table discloses the remuneration of the specified executives (excluding Executive Directors) of the company and the consolidated entity for the year ended 30 June 2005, as specified for disclosure by AASB1046. The information in this table is audited.

Executive	Salary & Fees	Superannuation	Options <sup>(1)</sup>	Other	Total
Stewart McClay					
-2005	146,926	33,654	52,800	-	233,380
John Truitt					
-2005	165,137	14,863	40,373	-	220,373
-2004	38,813	3,493	-	35,000	77,306
Ashley Anderson					
-2005	165,137	14,863	40,373	-	220,373
-2004	35,437	3,189	-	35,000	73,626
TOTAL 2005	477,200	63,380	133,546	-	674,126
TOTAL 2004	74,250	6,682	-	70,000	150,932

<sup>(1)</sup> The option amounts disclosed are based on the assessed fair value at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value allocated to each reporting period.

The Company had only three (2004 - two) persons employed who were deemed to be specified executives.

### Payments made to Director Related entities (This information is audited)

During the year the company paid amounts to directors or director related entities pursuant to various agreements relating to the company's capital raising in August 2004 as follows:-

- Amount of \$200,000 was paid to Winchester Associates Pty Limited (a company associated with Messrs Gazal, Gullotta and Flitcroft) for advisory services.
- Amount of \$30,000 was paid to Rischeh Kumarasinghe for advisory services.
- Amount of \$30,000 was paid to Health Oliver and Associates Pty Limited (a company associated with Mr Geoffrey Stumbles) for consultancy services.

During the year the company paid a retainer of \$18,750 to Winchester Associates Pty Limited in its capacity as financial advisor to the company.

## DIRECTORS' REPORT (CONTINUED)

### Other Information

#### Non-audit services

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

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2005:

	\$
Taxation services	2,000
Due diligence investigations	10,000
	<u>12,000</u>

#### Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2005 is set out on page 34 of this annual report.

Signed in accordance with a resolution of the Board of Directors.



Robert L Stovold

Chairman

Dated 29<sup>th</sup> September 2005

## CORPORATE GOVERNANCE STATEMENT

### Corporate Governance

The Company listed on the Australian Stock Exchange on 27<sup>th</sup> August 2004. The Company formally adopted corporate governance policies and practices as provided by the ASX Listing Rules and the principles of the ASX Corporate Governance Council on 10<sup>th</sup> June 2005. The Directors are of the opinion that since listing the Company would essentially have complied with the above-mentioned policies. Set out below is more information on the Company's corporate governance policies.

### Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The Board reviews its composition and assesses nominations for new appointments from time to time to ensure the right balance of skills and experience.

The majority of the Board are to be independent directors, having no business or other relationship that could compromise their autonomy.

The Chairman and Chief Executive Officer roles are to be held by different persons.

The Chief Executive Officer may also be a director of the Company. Other directors retire by rotation in accordance with clause 16 of the Constitution.

Newly appointed directors must stand for re-election at the next Annual General Meeting in accordance with clause 16 of the Constitution, with the exception of the Managing Director.

The Board regularly assesses the independence of each non-executive director in the light of interests disclosed by them. The Company does not consider length of tenure as disqualifying criteria for independence.

An independent director is independent of management and free of 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 judgement.

In assessing the independence of each director, the Board takes into consideration whether the director's shareholding in the Company, relationships with suppliers, customers and competitors, or tenure as a director of the Company would materially affect the director's ability to exercise unfettered and independent judgement in the interests of the Company's shareholders.

Consistent with the emphasis on 'substance over form' advocated by the ASX Guidelines, the Board takes a qualitative approach to materiality, rather than setting strict numerical thresholds, and considers each director's individual circumstances on its merits.

The independence of each director is formally reviewed annually in June each year and at any time when a change occurs that may affect a director's independence. Non-executive directors must formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The names of independent directors of the company are Robert Stovold, Rischeh Kumarasinghe, Charles Gullotta and, Geoffrey Stumbles. Mr Stumbles will become an executive of the Company on 1<sup>st</sup> October 2005 and will cease to be an independent director at that time.

Independent directors have the right to seek independent professional advice at the company's expense in the furtherance of their duties as directors. Written approval must be obtained from the Chairman prior to incurring any expense on behalf of the company.

The Board has created a number of standing committees:

Audit Committee

Strategy and Intellectual Property Committee

Remuneration and Nominations Committee

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### Role of the Board

The Company recognises that corporate governance is fundamental to the effective operation of the Company. The Board is the pivotal element of corporate governance, and the Company desires its Board to be effective, independent, representative of stakeholders and valuable to the organisation.

The Board's role is to provide governance of the Company in the best interests of shareholders, having regard to the interests of all stakeholders of the Company. The specific responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- Input into and approval of strategic plans and goal and performance objectives, key operational and financial matters, as well as major investment and divestment proposals;
- appointing and removing the Chief Executive Officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Company Secretary;
- approving the nominations of Directors to the Board;
- ensuring Management maintains a sound system of internal controls to safeguard the assets of the Group;
- monitoring the performance of the Group;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other Board reporting; and
- the approval of the annual and half yearly financial report.

### Performance Evaluation

An annual self assessment of the Board and all Board members is conducted by the Board in such manner as the Board deems appropriate.

### Trading Policy

The company's policy regarding directors and employees trading in its securities, has been set by the Board. The policy restricts directors and employees from acting 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.

### Audit Committee

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the Directors' report.

The role of the Audit Committee is to:

- to review proposed reportable financial information and to recommend its approval or otherwise by the Board;
- to review and assess the Company's accounting policies, and determine in consultation with the Chief Financial Officer if any changes to policy should be enacted;
- to communicate with, and monitor the effectiveness of the Company's external auditor; and
- to make recommendations to the Board for the appointment, reappointment or replacement and remuneration of an appropriate independent external auditor.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### Remuneration & Nominations Committee

The Remuneration & Nominations Committee comprises all non-executive members of the Board and their attendance at meetings of the committee are detailed in the directors' report. The responsibilities of the Remuneration and Nominations Committee include:

- Assessing the skills and competencies required on the Board and from time to time assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole;
- Encouraging and supporting directors' professional development to enhance director competencies;
- Establishing processes for the identification of suitable candidates for appointment to the Board;
- Developing Board succession plans to maintain an appropriate balance of skills, experience and expertise on the Board;
- Considering recommendations for the appointment and removal of Directors; and
- Approving remuneration strategy and policies for senior management and selected packaged employees, as well as the individual remuneration arrangements and terms of employment for positions/individuals who are direct reports to the Chief Executive Officer, ensuring that remuneration policies are not only effective, but that they are also reported and explained to shareholders.

Additional information on the Company's remuneration principles is contained in the Remuneration Report, contained in the Directors' Report.

### Continuous Disclosure and ASX Announcements

The Company is concerned that all material matters are disclosed in a timely and balanced manner and the following policies apply:

- Directors and Executive Management are to be aware of the continuous disclosure regulations in the ASX Listing Rules.
- In the event that any Director or member of management becomes aware of any fact or circumstance which may give rise to a requirement to disclose such information under the Listing Rules, they are required to immediately inform either the Company Secretary, the CEO (or similar), the CFO or the Chairman.
- Prior to disclosure, the CFO will review the information to enable a judgement as to the appropriate disclosure, if any, to be made.
- If there is uncertainty over the requirement to comply with the continuous disclosure requirements, then the Company will seek external legal advice. The Company, through the Company Secretary, will notify the ASX of any information it is determined is required to be disclosed.

Where announcements are made to the market through the ASX, such announcements are pre-vetted by the CFO, Chairman and Board of Directors to ensure that such statements are:

- factual;
- do not omit material information; and
- are expressed in a clear and objective manner.

### Corporate Reporting

The Company strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. Information is communicated to shareholders through: the Annual Financial Report, disclosures to the ASX, notices and explanatory memoranda of Annual General Meetings; and SomnoMed's website at [www.somnomed.com](http://www.somnomed.com).

### Risk Management

The Board is committed to the Senior executives and management are expected to practise sensible risk management in the day-to-day performance of their duties and are required to escalate any material issues which arise or have the potential to arise. The CEO has the primary responsibility to advise the Board of material risk items which arise and together, the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

**STATEMENTS OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from sale of goods, net of discounts	2	377,123	28,147	377,123	28,147
Cost of sales		(349,134)	(51,422)	(349,134)	(51,422)
Revenue from investment activities		392,700	17,657	392,700	17,657
Proceeds on sale of fixed assets		250	-	250	-
Carrying value of fixed assets disposed of		(6,870)	-	(6,870)	-
Carrying value of investments disposed of		-	(11,350)	-	(11,350)
Release of provision for diminution in value of investments		-	350	-	350
Borrowing costs		(20,343)	-	(20,343)	-
Other expenses from ordinary activities	3	(3,660,363)	(540,379)	(3,660,363)	(540,379)
Operating (Loss) before income tax		(3,266,637)	(556,997)	(3,266,637)	(556,997)
Income tax expense/(benefit) attributable to Operating (Loss)	4	-	-	-	-
Operating (Loss) attributable to members of the parent entity		(3,266,637)	(556,997)	(3,266,637)	(556,997)
Basic (loss) per share (cents)	22	(3.0)	(2.3)	(3.0)	(2.3)
Diluted (loss) per share (cents)	22	(3.0)	(2.3)	(3.0)	(2.3)

The accompanying notes form part of these financial statements.

**STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>CURRENT ASSETS</b>					
Cash assets	5	6,635,604	51,275	6,635,604	51,275
Receivables	6	132,368	26,959	132,368	27,079
<b>TOTAL CURRENT ASSETS</b>		<b>6,767,972</b>	<b>78,234</b>	<b>6,767,972</b>	<b>78,354</b>
<b>NON-CURRENT ASSETS</b>					
Investments	7	-	-	-	504,500
Property, plant and equipment	8	658,246	26,852	658,246	26,852
Intangible assets	9	491,474	519,620	491,474	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,149,720</b>	<b>546,472</b>	<b>1,149,720</b>	<b>531,352</b>
<b>TOTAL ASSETS</b>		<b>7,917,692</b>	<b>624,706</b>	<b>7,917,692</b>	<b>609,706</b>
<b>CURRENT LIABILITIES</b>					
Payables	10	250,786	777,533	250,786	762,533
Interest bearing liabilities	11	156,922	-	156,922	-
Provisions	13	53,760	7,250	53,760	7,250
<b>TOTAL CURRENT LIABILITIES</b>		<b>461,468</b>	<b>784,783</b>	<b>461,468</b>	<b>769,783</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	12	254,832	-	254,832	-
<b>NON-CURRENT LIABILITIES</b>		<b>254,832</b>	<b>-</b>	<b>254,832</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>716,300</b>	<b>784,783</b>	<b>716,300</b>	<b>769,783</b>
<b>NET ASSETS/ (DEFICIENCY)</b>		<b>7,201,392</b>	<b>(160,077)</b>	<b>7,201,392</b>	<b>(160,077)</b>
<b>SHAREHOLDERS' EQUITY</b>					
Contributed equity	14	14,910,397	4,282,291	14,910,397	4,282,291
Accumulated losses	15	(7,709,005)	(4,442,368)	(7,709,005)	(4,442,368)
<b>TOTAL EQUITY/ (DEFICIENCY)</b>		<b>7,201,392</b>	<b>(160,077)</b>	<b>7,201,392</b>	<b>(160,077)</b>

The accompanying notes form part of these financial statements.

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Cashflows from operating activities</b>					
Receipts from customers		291,324	19,048	291,324	19,048
Payments to suppliers and employees		(4,097,538)	(293,840)	(4,097,538)	(293,840)
Interest received		392,700	5,537	392,700	5,537
Interest Paid		(19,521)	-	(19,521)	-
Dividends received		-	625	-	625
Net cash inflow/ (outflow) from operating activities	20	(3,433,035)	(268,630)	(3,433,035)	(268,630)
<b>Cashflows from investing/financing activities</b>					
Proceeds from issue of shares (net of issue costs)		10,628,106	229,450	10,628,106	229,450
Proceeds from sale of fixed assets		250	-	250	-
Proceeds from borrowings		503,191	-	503,191	-
Repayments of borrowings		(91,437)	-	(91,437)	-
Proceeds from sale of investments		-	11,495	-	11,495
Payments for investments		(350,000)	-	(350,000)	-
Payments for intellectual property		-	(120)	-	(120)
Payments for property, plant and equipment		(672,746)	(27,773)	(672,746)	(27,773)
Net cash inflow/ (outflow) from investing/financing activities		10,017,364	213,052	10,017,364	213,052
Net increase/ (decrease) in cash held		6,584,329	(55,578)	6,584,329	(55,578)
Cash at the beginning of the financial year		51,275	106,853	51,275	106,853
Cash at the end of the financial year	19	6,635,604	51,275	6,635,604	51,275

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

## 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 entity, and SomnoMed Limited as an individual parent entity. SomnoMed Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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.

The accompanying financial statements have been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001. The accounts have also been prepared on the basis of historical cost and going concern and do not take into account changing money values, or except where stated, current valuations of non-current assets. Unless otherwise stated, the accounting policies adopted are consistent with those adopted in the previous financial year.

### 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. A list of controlled entities is contained in Note 19 to the financial statements.

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 economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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 taxation legislation and the anticipation that the economic entity will derive sufficient 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 not been discounted to their present values in determining recoverable amounts.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Depreciation

The depreciable amount of all fixed assets including capitalised leased assets, 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%

### 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. Recoverable amounts of non-current assets

The carrying amounts of non-current assets will be reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount.

### f. Research and Development Expenditure

Research and Development costs are charged to profit/loss from ordinary activities 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 expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### m. Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. The audit committee is responsible for managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS committee.

#### Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. It is not anticipated that this will have any financial impact at the time of transition as the economic entity is in a tax loss situation and deferred tax assets are not recognised for tax losses or timing differences.

#### Share-based Payment

Currently, the economic entity does not recognise an expense in relation to options issued to directors and employees. Under AASB 2 Share-based Payment, the economic entity will be required to recognise an expense in respect of the services received for equity instruments issued.

On transition to AIFRS the estimated cumulative financial effect of the reliably known differences on the parent and economic entity's reported net loss and equity as at 30 June 2005 is summarised below. As noted above, these amounts represent management's best estimates, and could differ from actuals.

	<b>Economic Entity</b>	<b>Parent Entity</b>
	<b>2005</b>	<b>2005</b>
	\$	\$
<b>Reconciliation of Net Loss</b>		
Net loss reported under Australian Accounting Standards	(3,266,637)	(3,266,637)
Transitional adjustment:		
- Recognition of remuneration expense relating to options	(425,681)	(425,681)
Net loss under AIFRS	(3,692,318)	(3,692,318)

The recognition of a remuneration expense relating to options will not affect the total equity reported under AIFRS, as a corresponding entry is made to an equity account.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
<b>2. REVENUE</b>	\$	\$	\$	\$
<b>Revenue from investment activities</b>				
Proceeds on sale of investments	-	11,495	-	11,495
Interest received - other persons	392,700	5,537	392,700	5,537
Dividends	-	625	-	625
	<hr/>	<hr/>	<hr/>	<hr/>
	392,700	17,657	392,700	17,657
<b>Revenue from sale of goods, net of discounts</b>				
	<hr/>	<hr/>	<hr/>	<hr/>
	377,123	28,147	377,123	28,147

**3. OTHER EXPENSES FROM ORDINARY ACTIVITIES**

Other expenses from ordinary activities include the following:

Depreciation	34,482	921	34,482	921
Amortisation of intellectual property	28,146	-	28,146	-
Operating lease rentals	109,414	-	109,414	-
Employee benefits expense	1,074,941	159,565	1,074,941	159,565
Directors' remuneration	810,225	45,417	810,225	45,417
Auditors' remuneration (note 16)	15,000	8,800	15,000	8,800
Other	1,588,155	325,676	1,588,155	325,676
	<hr/>	<hr/>	<hr/>	<hr/>
	3,660,363	540,379	3,660,363	540,379

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

4. INCOME TAX EXPENSE	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
a. Income Tax Expense				
The amount provided in respect of income tax differs from the amount of prima facie tax payable on the operating result and is reconciled as follows:				
Prima facie income tax expense calculated at 30% of operating profit/(loss)	(979,991)	(167,099)	(979,991)	(167,099)
Increase/(Decrease) in income tax expense due to non-deductible/(assessable) items	14,559	4,684	14,559	4,684
Future income tax benefit due to tax losses and timing differences not recognised/(tax losses utilised)	965,432	162,415	965,432	162,415
Income tax expense	-	-	-	-

b. Future Income Tax Benefit not taken into account

The future income tax benefit based on an income tax rate of 30% arising from tax losses and timing differences has not been recognised as an asset because recovery is not virtually certain

Tax losses carried forward	1,199,634	138,815	1,199,634	138,815
Timing differences	19,128	24,508	19,128	24,508
	1,218,762	163,323	1,218,762	163,323

The future income tax benefit, which has not been recognised as an asset will only be obtained if:

- i. the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be released;
- ii. the Company continues to comply with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the Company in releasing the benefit.

### 5. CASH ASSETS

Money market securities	6,500,000	-	6,500,000	-
Cash at bank	135,604	51,275	135,604	51,275
	6,635,604	51,275	6,635,604	51,275

### 6. RECEIVABLES (Current)

Trade Debtors	98,004	12,205	98,004	12,205
Less provision for doubtful debts	-	-	-	-
	98,004	12,205	98,004	12,205
Other Debtors	34,364	14,754	34,364	14,754
Loan to related company	-	-	-	120
	132,368	26,959	132,368	27,079

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>7. INVESTMENTS (Non - current)</b>				
At cost:				
Shares in related company	-	-	-	504,500
	-	-	-	504,500

On 11 March 2004, the parent entity purchased 100% of the issued capital of Amelia Blue Pty Limited for the consideration of \$504,500. The only asset of Amelia Blue Pty Limited at the time of purchase was patents and trademarks, relating to rapid maxillary expansion and the mandibular advancement splint that is now marketed by the parent entity. In November 2004, Amelia Blue Pty Limited assigned these patents and trademarks to the parent entity for the nominal consideration of \$1. At 30 June 2005, Amelia Blue Pty Limited has no assets or liabilities. The original cost of shares in Amelia Blue Pty Limited of \$504,500 was transferred to patents and trademarks in the accounts of the parent entity as at the time of assignment, and is included in patents and trademarks of \$519,620 disclosed at note 9.

**8. PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment-at cost	693,649	27,773	693,649	27,773
Accumulated depreciation	(35,403)	(921)	(35,403)	(921)
	658,246	26,852	658,246	26,852

Movements in the carrying amounts of plant and equipment during the current financial year:

Balance at the beginning of the year	26,852	-	26,852	-
Additions	672,746	27,773	672,746	27,773
Disposals	(6,870)	-	(6,870)	-
Depreciation expense	(34,482)	(921)	(34,482)	(921)
Carrying amount at the end of the year	658,246	26,852	658,246	26,852

**9. INTANGIBLE ASSETS**

Patents and trademarks – at cost	519,620	519,620	519,620	-
Accumulated amortisation	(28,146)	-	(28,146)	-
	491,474	519,620	491,474	-

**10. PAYABLES**

Trade creditors and accruals	250,786	427,533	250,786	412,533
Other creditors	-	350,000	-	350,000
	250,786	777,533	250,786	762,533

**11. INTEREST BEARING LIABILITIES (current)**

Hire purchase liabilities	156,922	-	156,922	-
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**12. INTEREST BEARING LIABILITIES  
(Non-current)**

Hire purchase liabilities	254,832	-	254,832	-
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
<b>13. PROVISIONS</b>	\$	\$	\$	\$
Employee entitlements	53,760	7,250	53,760	7,250
	<u>53,760</u>	<u>7,250</u>	<u>53,760</u>	<u>7,250</u>
Employees at year end	22	4	22	4

**14. CONTRIBUTED EQUITY**

Issued and fully paid ordinary shares

114,900,016 (2004 – 74,900,016) ordinary shares	14,910,397	4,282,291	14,910,397	4,282,291
Balance at the beginning of period	4,282,291	4,000,005	4,282,291	4,000,005
Shares issued during period:				
- 40,000,000 pursuant to a Prospectus dated 22 July 2004	12,000,000	-	12,000,000	-
- 2,400,003 pursuant to Entitlement Issue for cash pre share split	-	24,000	-	24,000
- 15,200,000 pursuant to placement agreements for cash pre share split	-	152,000	-	152,000
-15,450,000 pursuant to Share Sale Agreement for the acquisition of Amelia Blue Pty Limited pre share split	-	154,500	-	154,500
800,000 pursuant to placement agreements for cash post share split	-	80,000	-	80,000
Less costs associated with share issues	(1,371,894)	(128,214)	(1,371,894)	(128,214)
Balance at end of year	<u>14,910,397</u>	<u>4,282,291</u>	<u>14,910,397</u>	<u>4,282,291</u>

On 17<sup>th</sup> March 2004 a one for one share split took effect resulting in the total number of shares on issue at that date being 74,100,016.

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

At 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.

At 30<sup>th</sup> June 2005 there were 7,550,000 (30th June 2004: 5,500,000) unissued ordinary shares for which options were outstanding.

**15. ACCUMULATED LOSSES**

Accumulated losses at the beginning of year	(4,442,368)	(3,900,371)	(4,442,368)	(3,900,371)
Transfer from forfeited shares reserve	-	15,000	-	15,000
Operating (Loss)	(3,266,637)	(556,997)	(3,266,637)	(556,997)
Accumulated losses at end of year	<u>(7,709,005)</u>	<u>(4,442,368)</u>	<u>(7,709,005)</u>	<u>(4,442,368)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
<b>16. REMUNERATION OF AUDITORS</b>	\$	\$	\$	\$
Amounts received to due and receivable by the auditors for:				
Auditing the financial statements	11,000	8,000	11,000	8,800
Other services	4,000	800	4,000	800
Total included in operating result	15,000	8,800	15,000	8,800

A further amount of \$10,000 paid to the auditors in connection with the company's Prospectus issued in July 2004 is included in the costs associated with share issues debited to contributed equity at note 14.

### 17. SEGMENT OPERATIONS

The Company operations during the year related to the commercialisation of a mandibular advancement splint only in Australia.

### 18. PARTICULARS RELATING TO CONTROLLED ENTITY

Details of the controlled entity are reflected below

Company	Country of Incorporation	2005	2004
		Interest %	
SomnoMed Limited	Australia		
<b>Entity controlled by SomnoMed Limited</b>			
Amelia Blue Pty Limited	Australia	100%	100%

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
<b>19. RECONCILIATION OF CASH</b>	\$	\$	\$	\$
Cash at the end of the financial year as shown in the statement of cashflows is reconciled to the related items in the balance sheet as follows:				
Cash at bank and on deposit and money market securities	6,635,604	51,275	6,635,604	51,275
	6,635,604	51,275	6,635,604	51,275

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
<b>20. RECONCILIATION OF OPERATING (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating (Loss) after income tax	(3,266,637)	(556,997)	(3,266,637)	(556,997)
Loss from sale of fixed asset	6,620	-	6,620	-
Provision for loss on sale of investments	-	(350)	-	(350)
Profit from sale of investments	-	(145)	-	(145)
Depreciation and amortization	62,628	921	62,628	921
<b>Change in operating assets and liabilities</b>				
(Increase)/Decrease in receivables	(105,409)	(26,878)	(105,409)	(26,878)
Increase/(Decrease) in other creditors and accruals	(176,747)	307,569	(176,747)	307,569
Increase in provisions	46,510	7,250	46,510	7,250
	<u>(3,433,035)</u>	<u>(268,630)</u>	<u>(3,433,035)</u>	<u>(268,630)</u>

**21. FINANCIAL INSTRUMENTS**

a. Interest Rate Risk

	Fixed Interest Rate		Floating Interest Rate		Non Interest Bearing		Weighted Average Effective Rate	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$	%	%
<b>Financial Assets:</b>								
Cash	-		6,635,604	51,275	-	-	5.43	4.60
Receivables	-	-	-	-	132,368	26,959	-	-
<b>Financial Liabilities</b>								
Hire purchase liabilities	411,754	-	-	-	-	-	7.95	-
Payables	-	-	-	-	250,786	777,533	-	-
	<u>(411,754)</u>	<u>-</u>	<u>6,635,604</u>	<u>51,275</u>	<u>(118,418)</u>	<u>(750,574)</u>		

b. Credit Risk Exposure

The credit risk exposure of the economic entity to financial assets, which have been recognised on the balance sheet, is generally the carrying amount, net of any provisions for doubtful debts.

c. Net Fair Values of Financial Assets and Liabilities

The carrying amounts of cash, cash equivalents and non-interest bearing financial assets and liabilities (for example accounts receivable and payable) approximate fair value.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 22. LOSS PER SHARE

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

	Economic Entity	
	2005	2004
Net loss used in calculating basic and diluted earnings per share	(\$3,266,637)	(\$556,997)
Basic and diluted (loss) per share (cents per share)	(3.0)	(2.3)
Weighted average number of shares used in the calculation of basic and diluted loss per share	108,182,208	24,560,035
Shares on issue at year end	114,900,016	74,900,016
Number of options on issue at year end – each option is exercisable at between 30 cents and 48 cents per share and converts to one ordinary share	7,550,000	5,500,000

No adjustment has been made for the options on issue to the diluted loss per share or the weighted average number of shares used in calculating diluted loss per share, because subsequent to 30 June 2005 the market price of the shares has at no time exceeded the exercise price of the options on issue.

23. CAPITAL AND LEASING COMMITMENTS	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

#### Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable

- not later than 1 year	161,716	123,083	161,716	123,083
- later than 1 year but not later than 5 years	544,507	648,109	544,507	648,109
- later than 5 years	-	28,798	-	28,798
	706,223	799,990	706,223	799,990

Included in the operating lease commitments is a non-cancellable property lease with a five-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 4% per annum. An option exists to renew the lease at the end of the five-year term for an additional term of five years.

The lease allows for subletting of all lease areas.

#### Hire Purchase Commitments

Payable

- not later than 1 year	189,384	-	189,384	-
- later than 1 year but not later than 5 years	268,294	-	268,294	-
- later than 5 years	-	-	-	-
	457,678	-	457,678	-
Less: future finance charges	(45,924)	-	(45,924)	-
	411,754	-	411,754	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 24. EMPLOYEE BENEFITS

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	#	#	#	#
a. Movement in the number of share options held by employees are as follows:				
Opening balance	2,000,000	-	2,000,000	-
Granted during the year	1,700,000	2,000,000	1,700,000	2,000,000
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Closing Balance	3,700,000	2,000,000	3,700,000	2,000,000

b. Details of employee share options outstanding as at end of year:

Grant Date	Expiry and Exercise Date	Exercise Price				
5 May 2004	27 August 2006-27 August 2008	\$0.30	2,000,000	2,000,000	2,000,000	2,000,000
24 September 2004	27 August 2006-27 August 2008	\$0.43	1,000,000	-	1,000,000	-
23 December 2004	27 August 2006-27 August 2008	\$0.45	600,000	-	600,000	-
25 February 2005	27 August 2006-27 August 2008	\$0.48	100,000	-	100,000	-
			3,700,000	2,000,000	3,700,000	2,000,000

Options granted to employees hold no voting or dividend rights and are not transferable.

### 25. EVENTS SUBSEQUENT TO BALANCE 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.

### 26. CONTINGENT LIABILITIES

At 30<sup>th</sup> June 2005 no contingent liabilities existed, except that a claim has been made by a third party with regard to part of the company's intellectual property. The Directors have sought legal advice and are of the opinion that the claim is without substance and will be strongly resisted. In the unlikely event that the claim is successful, the directors are of the opinion that the loss suffered by the company will be immaterial.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 27. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

- (a) Controlled entity
  - (i) Interest in a controlled entity is disclosed in Note 18. During the financial year an Australian controlled entity transferred intellectual property to the parent entity as described in note 7. Ordinary shares held in the controlled entity are shown in Note 7 and any amount receivable from the controlled entity is shown in note 6. No interest is charged on inter-company loans. These transactions are eliminated on consolidation.
- (b) Director related entities
  - (i) During the year the company paid amounts to directors or director related entities pursuant to various agreements relating to the company's capital raising in August 2004 as follows:-
    - Amount of \$200,000 was paid to Winchester Associates Pty Limited (a company associated with Messrs Gazal, Gullotta and Flitcroft) for advisory services.
    - Amount of \$30,000 was paid to Rischeh Kumarasinghe for advisory services.
    - Amount of \$30,000 was paid to Health Oliver and Associates Pty Limited (a company associated with Mr Geoffrey Stumbles) for consultancy services.
  - (ii) During the year the company paid a retainer of \$18,750 to Winchester Associates Pty Limited in its capacity as financial advisor to the company.
- (c) Transactions in securities of the Company
  - (i) During the year directors or entities related to directors acquired under normal commercial terms shares or options in the company as detailed in note 28. Directors acquired these shares through the public offering, direct issue or on-market purchase.

### 28. SPECIFIED DIRECTORS' AND SPECIFIED EXECUTIVES' DISCLOSURES

#### (a) Specified Directors' and Specified Executives' Remuneration

Details of specified Directors' and Executives' remuneration is disclosed in the Directors' Report, which accompanies these financial statements.

#### (b) Names and positions held of Parent Entity Directors and Specified Executives in office at any time during the financial year are:

##### Parent Entity Directors

Robert Stovold	Chairman — Non-Executive
Jonathan Wright	Managing Director (appointed 24 March 2005)
John Diddams	Managing Director (resigned 1 September 2004)
Samuel Gazal	Director — Non-Executive (resigned 22 July 2004)
Terence Flitcroft	Director — Non-Executive (resigned 16 July 2004)
Charles Gullotta	Director — Non-Executive
Peter Spencer	Director — Non-Executive (resigned 22 December 2004)
Rischeh Kumarasinghe	Director — Non-Executive
Geoffrey Stumbles	Director — Non-Executive

##### Specified Executives

Stewart McClay	Chief Financial Officer (appointed 21 September 2004)
John Truitt	General Manager North America
Ashley Anderson	General Manager Asia Pacific

The Company had only three (2004-two) persons employed who were deemed to be specified executives.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

**28. SPECIFIED DIRECTORS' AND SPECIFIED EXECUTIVES' DISCLOSURES (CONTINUED)**

**(c) Remuneration Options-Terms & Conditions**

	<b>Granted Number</b>	<b>Grant Date</b>	<b>Value per Option at Grant Date</b>	<b>First Exercise Price</b>	<b>Earliest Exercise Date</b>	<b>Last Exercise Date</b>
<b>Parent Entity Directors</b>						
Jonathan Wright	1,500,000	24 September 2004	13.2 cents	43 cents	27 August 2006	27 August 2008
Peter Spencer	600,000	23 December 2004	13.3 cents	45 cents	27 August 2006	27 August 2008
<b>Specified Executive</b>						
Stewart McClay	1,000,000	24 September 2004	13.2 cents	43 cents	27 August 2006	27 August 2008

All grants of options vest on 27<sup>th</sup> August 2006. No options had vested at balance date.

Mr McClay resigned as an employee during July 2005 and 500,000 of the 1,000,000 options issued to him in September 2004 were cancelled. The remaining 500,000 of Mr McClay's options vested on resignation.

**(d) Options and Rights Holdings**

Number of options held by Specified Directors & Executives

	<b>Balance 1.7.04</b>	<b>Granted as Remuneration/ Other</b>	<b>Balance 30.6.05</b>	<b>Total Vested 30.6.05</b>	<b>Total Exercisable</b>	<b>Total Un.exercisable</b>
<b>Parent Entity Directors</b>						
Terence Flitcroft	100,000	-	100,000	100,000	-	100,000
Robert Stovold	300,000	-	300,000	300,000	-	300,000
Charles Gullotta	300,000	-	300,000	300,000	-	300,000
Peter Spencer	300,000	600,000	900,000	300,000	-	900,000
Rischeh Kumarasinghe	300,000	-	300,000	300,000	-	300,000
Geoffrey Stumbles	300,000	-	300,000	300,000	-	300,000
Jonathan Wright	-	1,500,000	1,500,000	-	-	1,500,000
John Diddams	1,500,000	(1,500,000) <sup>(1)</sup>	-	-	-	-
<b>Specified Executives</b>						
Stewart McClay	-	1,000,000	1,000,000	-	-	1,000,000
John Truitt	1,000,000	-	1,000,000	-	-	1,000,000
Ashley Anderson	1,000,000	-	1,000,000	-	-	1,000,000
<b>Total</b>	<b>5,100,000</b>	<b>1,600,000</b>	<b>6,700,000</b>	<b>1,600,000</b>	<b>-</b>	<b>6,700,000</b>

(1) Whitfield Investments Pty Limited (a company associated with Mr Diddams) held a total of 1,500,000 options, prior to his resignation. Following his resignation in September 2004 1,150,000 of these options were cancelled.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

**28. SPECIFIED DIRECTORS' AND SPECIFIED EXECUTIVES' DISCLOSURES (CONTINUED)**

**(e) Shareholdings**

Number of Shares held by Parent Entity Directors and Specified Executives, including shares held by entities associated with Directors

	<b>Balance</b>	<b>Net Change</b>	<b>Balance</b>
	<b>1.7.04</b>	<b>/Other</b>	<b>30.6.05</b>
<b>Parent Entity Directors</b>			
Samuel Gazal	3,730,020	-	3,730,020
Terence Flitcroft	2,074,208	-	2,074,208
Robert Stovold	448,000	50,000	498,000
Charles Gullotta	2,074,210	-	2,074,210
Peter Spencer	-	-	-
Rischeh Kumarasinghe	-	-	-
Geoffrey Stumbles	-	-	-
Jonathan Wright	-	50,000	50,000
John Diddams	500,000	(500,000) <sup>(1)</sup>	-
<b>Specified Executives</b>			
Stewart McClay	-	-	-
John Truitt	150,000	-	150,000
Ashley Anderson	150,000	-	150,000
<b>Total</b>	<b>9,126,438</b>	<b>(400,000)</b>	<b>8,726,438</b>

(1) Held at date of resignation

## DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes, as set out on pages 15 to 31 are in accordance with the Corporations Act 2001:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



**Robert L Stovold**

**Chairman**

Dated 29<sup>th</sup> September 2005



**STIRLING SCI**  
CHARTERED ACCOUNTANTS

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
SOMNOMED LIMITED**

**Scope**

We have audited the financial report of SomnoMed Limited and its controlled entity for the year ended 30 June 2005 as set out on pages 15 to 32.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entity it controlled at the end of the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "remuneration report" in pages 9 to 10 of the directors' report, as permitted by the Corporations Regulations 2001.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

**Independence**

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

**Audit Opinion**

In our opinion,

1. The financial report of SomnoMed Limited is in accordance with:

(a) the Corporations Act 2001, including:

- i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
- ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) Other mandatory professional reporting requirements in Australia.

2. The remuneration disclosures that are contained in pages 9 to 10 of the directors' report comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOMNOMED LIMITED (CONTINUED)

### Inherent Uncertainty Regarding Recoverability of Assets

Without qualification to the opinion expressed above, attention is drawn to the following matter.

Included in non current assets in the consolidated statement of financial position are patents and trademarks at book value of \$491,474. The ultimate recovery of the value of these assets is dependent upon the success of the commercialization of the intellectual property.

Stirling SCI  
Chartered Accountants



Peter Turner  
Partner  
29<sup>th</sup> September 2005  
St James Centre 111 Elizabeth St Sydney 2000

### AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SOMNOMED LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

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

Stirling SCI  
Chartered Accountants



Peter Turner  
Partner  
29<sup>th</sup> September 2005  
St James Centre 111 Elizabeth St Sydney 2000

## ADDITIONAL INFORMATION

The following information was current as at 19<sup>th</sup> September 2005:

a. **Distribution of Shareholders** **Number**

Category (size of holding)	
1-1,000	72
1,001-5,000	135
5,001-10,000	134
10,001-100,000	286
100,001 and over	68
	695

b. The number of shareholdings held in less than marketable parcels is 131.

c. The names of the substantial shareholders listed in the holding company's register were:

Shareholder	Number Ordinary	Percentage
Dr Richard Palmisano & Tunend Pty Limited	42,560,000	37.04%
REM Medical Pty Limited <ATF Cocoon Super Fund & Cistulli Family Trust>	16,440,000	14.31%

d. **Voting Rights**

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.

e. **20 Largest Shareholders — Ordinary Shares as at 19<sup>th</sup> September 2005**

Name	No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Dr Richard Palmisano	30,900,000	26.89
2. REM Medical Pty Limited <Cistulli Family A/C>	12,440,000	10.83
3. Tunend Pty Limited	11,660,000	10.15
4. J P Morgan Nominees Australia Limited	10,350,000	9.01
5. Queensland Investment Corporation	5,255,860	4.57
6. Mr Graham Hurst	5,180,000	4.51
7. REM Medical Pty Limited <Cocoon Super Fund A/C>	4,000,000	3.48
8. Roslyndale Pty Limited	3,728,420	3.24
9. Brylet Pty Limited	2,074,210	1.80
10. Kemlay Pty Limited	2,074,208	1.80
11. Golden Words Pty Limited	1,150,000	1.00
12. ANZ Nominees Limited	926,663	0.81
13. Mr Geoffrey Ashton Cousins	750,000	0.65
14. Ms Akiko Ikehara & Mr Keith Raymond Kinstler	700,958	0.61
15. Mrs Roslyn Ann Shepes & Mr Charles Shepes	521,023	0.45
16. Mr Robert Stovold	498,000	0.43
17. Mr Stephen Collins	400,000	0.35
18. Cugg Pty Limited	370,000	0.32
19. Linker Pty Limited	335,000	0.29
20. Pamela Susan Gazal	335,000	0.29
<b>Percentage held by top 20 shareholders</b>	<b>93,649,342</b>	<b>81.48</b>
<b>Total shares on issue</b>	<b>114,900,016</b>	<b>100.00</b>



## CORPORATE DIRECTORY

### Registered Office

Level 3  
20 Clarke St Crows Nest  
Telephone: (02) 9467 0400

### Directors

Robert L Stovold Non-executive Chairman  
Jonathan Wright Managing Director and Chief Executive Officer  
Charles J Gullotta Non-executive Director  
Rischeh Kumarasinghe Non-executive Director  
Geoffrey H Stumbles Non-executive Director

### Company Secretary

Terence A Flitcroft

### Medical Advisory Board

Associate Professor Peter A Cistulli (Chairman)  
Associate Professor J A (Jack) Gerschman  
Professor Iven J Klineberg  
Professor Colin Sullivan

### Legal Advisors

Atanaskovic Hartnell

### Patent Attorneys

Spruson & Ferguson

### Banker

Westpac Banking Corporation

### Auditors

Stirling SCI

### Financial Advisor

Winchester Associates Pty Limited

### Share Registry

Registries Limited  
28 Margaret Street  
SYDNEY NSW 2000  
(PO Box R67 Royal Exchange Sydney NSW 1223)  
Telephone (02) 9290 9600  
Facsimile (02) 9279 0664  
[www.registriesltd.com.au](http://www.registriesltd.com.au)

### Company Website

[www.somnomed.com](http://www.somnomed.com)



SomnoMed Limited  
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Australia

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**Email:** [info@somnomed.com](mailto:info@somnomed.com)  
**Web:** [www.somnomed.com](http://www.somnomed.com)