



AtCor Medical Holdings Limited

ASX Preliminary Year End Information

30 June 2008

(Previous corresponding period: Year ended 30 June 2007)

Lodged with the ASX under Listing Rule 4.2A.

Results for Announcement to the Market

				\$
Revenue from ordinary activities	Up	24%	to	6,869,016
(Loss) from ordinary activities after tax attributable to members	Down	27%	to	(3,792,731)
Net (loss) for the period attributable to members	Down	27%	to	(3,792,731)

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	-	-
Interim dividend	-	-

Explanation of Revenue, (Loss) from Ordinary Activities After Tax and Net (Loss)

For further explanation of the above figures please refer to the Directors' report, media release, management discussion and analysis and market presentations. Other financial information required by the Appendix 4E is contained in the financial statements.

Explanation of Net (Loss)

Refer to the year end accounts.

Explanation of Dividends

No dividends have been declared.

AtCor Medical Holdings Limited

Supplementary Appendix 4E information

NTA Backing

	2008	2007
Net tangible asset backing per ordinary share	5.7cents	9.1 cents

Controlled entities acquired or disposed of

PWV Medical Pty Ltd was deregistered during the financial year. No other controlled entities have been acquired or disposed of during the period.

Additional dividend/distributions information

No dividends have been declared or paid during or subsequent to the year ended 30 June 2008.

Dividend/distribution reinvestment plans

The company has adopted but not implemented a dividend reinvestment plan.

Associates and Joint Venture entities

Not applicable.

Foreign accounting standards

Not applicable.

Audit alert

Not applicable.

ATCOR MEDICAL HOLDINGS Limited
Annual report

ABN 81 113 252 234

for the year ended 30 June 2008

AtCor Medical Holdings Limited ABN 81 113 252 234

Annual report – 30 June 2008

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Corporate directory

Directors

Mr Donal O'Dwyer	Non-Executive Chairman BEng, MBA
Mr Duncan Ross	CEO and Managing Director, BS
Dr Michael O'Rourke	Non-Executive Director MD, DSc
Mr Peter Jenkins	Non-Executive Director DSc (honorary)
Dr Lisa McIntyre	Non-Executive Director BSc (Hons), PhD

Secretary

Mr Peter Manley	CFO and Company Secretary BBus, CPA, ACIS
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Notice of annual general meeting

The annual general meeting of AtCor Medical Holdings Limited

will be held at: To be advised

time: To be advised

date: 20 November 2008

Principal registered office in Australia

Suite 11, 1059 – 1063 Victoria Rd
West Ryde NSW 2114

Share and debenture register

Link Market Services Ltd
Lvl 12, 680 George St
PO Box 20013
World Square NSW 2000

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex St
GPO Box 2650
Sydney NSW 1171

Solicitors

Dibbs Abbott Stillman
Lvl 8, 123 Pitt St
GPO Box 983
Sydney NSW 2001

Stock exchange listings

AtCor Medical Holdings Limited shares are listed on the Australian Stock Exchange under ASX code ACG.

Website address

www.atcormedical.com

Chairman's Letter to Shareholders

I am very pleased to be able to report to you on the significant, continued progress made by your company during the past year.

AtCor is well placed to take full advantage of the opportunity presented by the changing and evolving approach to the provision of healthcare. The incidence of cardiovascular disease around the world continues to rise and the current approach to disease management creates the single most costly element of most western countries healthcare budgets. As a result, many leading physicians agree on the need to take a different approach. We believe we are ideally positioned to be an important part of this new and better solution. We provide physicians with a real opportunity to be more proactive in intervening earlier in the progression of the disease, thereby providing more treatment options – most, arguably less costly, than current approaches.

In addition to this important application of our technology, we continue to make major progress in partnering with many of the leading worldwide pharmaceutical companies. We provide them with an integrated service offering that allows them to collect important information on their compounds as they, with ever increasing frequency, use our technology in their clinical studies

At AtCor we have a specific and focused plan to reach our business goals. We also have in place a motivated and talented team led by our CEO, Duncan Ross, who are fully committed to executing on our plan.

I want to comment on some of the achievements of the past year:

- Strong growth in revenue with an increase over prior year of 47% in constant currency.
- All regions around the world contributed to this solid revenue growth.
- Despite adverse currency movements, gross margin increased to 80.1% of revenue versus 79.2% for the prior year – a result of aggressive management of costs and volume increases.
- A marginal increase in operating expenses – a result of detailed and diligent management of all spending.
- Cash usage was \$1million less than prior year.

Whilst the financials for the business continue to make positive progress, the company has also taken considerable strides towards achieving the milestones we have identified to enable the extraction of full value for our technology.

These include:-

- Further progress in providing a fully integrated service to many of the world's leading pharmaceutical companies. In excess of 100 new clinical trial sites that utilise SphygmoCor were added during the year.
- In addition to strong sales growth across each geography, AtCor began to do business in countries where previously it did not have a presence.
- Good progress in demonstrating the case for using the SphygmoCor system in clinical practice and in negotiating reimbursement.
- I am pleased with the progress we continue to make in putting in place a truly excellent group, with the skills to capitalise on the opportunities that are ahead of us. The quality, capability and motivation of our AtCor team are vital to our future success.
- Broker coverage of AtCor was initiated in March 2008, with a positive assessment of the company's potential. Whilst some progress has been made in the past six months in terms of value recognition, I expect that, as we continue to achieve our objectives, our share price will reflect both our achievements and our opportunity to create significant shareholder value.

Since my last chairman's letter, we have welcomed many new shareholders. We look forward to your continued support, and indeed the support of all our shareholders, as we continue to execute on our plans. In the near future you will receive an invitation to AtCor's AGM. I encourage you to attend and look forward to giving you a further update on the company's progress. You will also have the opportunity to meet and engage with many of the AtCor personnel.

Finally, on behalf of all shareholders, I want to thank the employees and management of AtCor, our medical advisers and, most importantly, our customers. They continue to lead the way in the treatment of cardiovascular disease.

A handwritten signature in black ink, appearing to read "Donal O'Dwyer". The signature is fluid and cursive, with a checkmark-like flourish at the end.

Donal O'Dwyer
Sydney
21 August 2008

CEO's Report

The Science Supports the Need

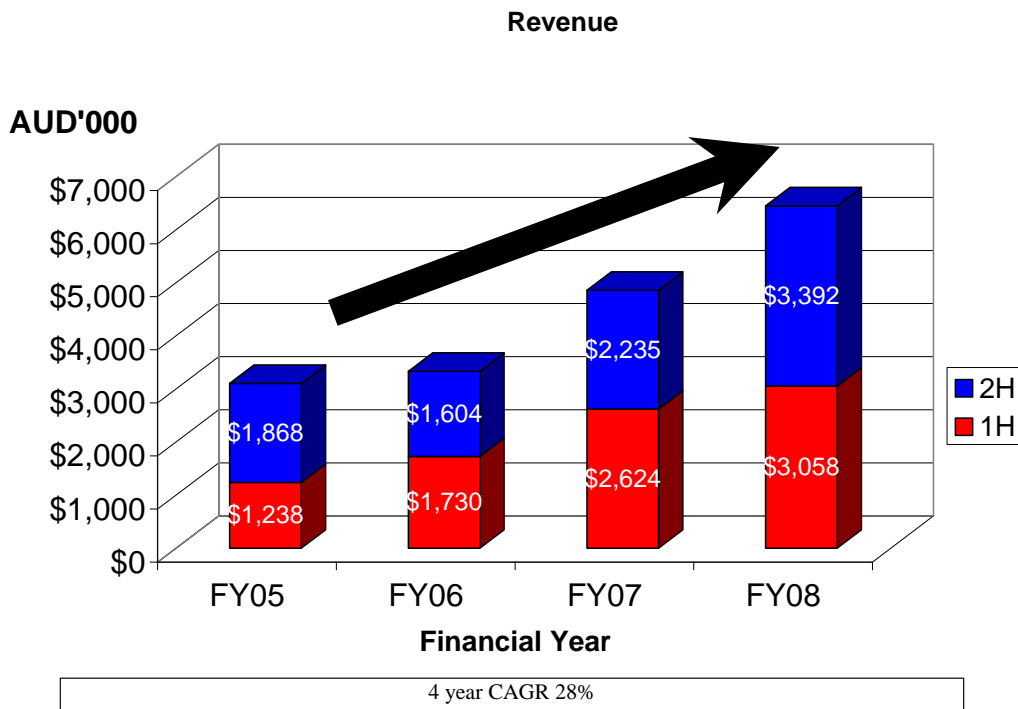
Dear Shareholder:

We are pleased to report that AtCor Medical made substantial progress in 2008 toward achieving its fundamental objectives of leading a paradigm shift in cardiovascular risk assessment and management while building a self sustaining and profitable business. In 2007's report we highlighted the management tools, metrics and programs that were being put in place to enable the company to deliver long-term value for our shareholders. This year's report will highlight significant progress achieved through focused implementation.

Our theme for this year's report, "*The Science Supports the Need*", speaks directly to why we believe that our SphygmoCor technology is perfectly positioned at a time when clinicians the world over are seeing, in increasing numbers, the critical importance of understanding and managing central blood pressure and arterial stiffness. Our corporate results and the continuing accumulation of clinical evidence in peer-reviewed journals are the direct result of AtCor Medicals' SphygmoCor technology being scientifically proven to support an important clinical and economic need.

2008 Highlights...*Focused and Talented People Delivering Results*

- Global sales increased 47% on a constant currency basis to \$6.5m.
- In North America, sales increased 46% for the fiscal year and 138% for the second half. US clinical sales grew 55% for the year. Substantial new pharmaceutical clinical trials revenue was placed under contract.
- In Europe, entry into new Eastern European markets, including Russia, and increased productivity from existing distributors resulted in sales growth of 55%.
- The Asia Pacific market grew 8% over 2007, when there was a large one-off order for retail testing. If this revenue is removed from the prior year comparison, Asia Pacific sales were up 55%.
- Gross margin increased from 79.2 % in FY 2007 to 80.1 %, reflecting manufacturing efficiencies related to volume and improvement in the cost of direct materials. Adjusting for devaluation of the US dollar, gross margin increased to 82.0 %.
- As highlighted in last year's report, the company has placed significant emphasis on cash and expense management. Operating expenses were essentially flat for the year (up 1.0% on a constant currency basis). Cash usage declined \$1.0m primarily as a result of increased receipts from customers.
- A number of important publications supporting the clinical adoption of SphygmoCor were published. The most significant was the **10, 613 subject Anglo-Cardiff II Trial**. The implications surrounding the major finding of the trial – "70% of individuals with high-normal brachial blood pressure had similar aortic blood pressures (central pressures) as those with Stage I Hypertension" – were profound and should serve as an important tipping point in clinical adoption of SphygmoCor technology.
- During 2008 AtCor's largest shareholder (26% of shares issued and outstanding), made a strategic decision to exit its Funds business. The sell down was oversubscribed, with AtCor Management and Directors taking up 12.7% of the interest. This has resulted in the removal of the known overhang at the time, a broadening of the shareholder base, and free float in the market
- Taylor Collison Share Brokers and Advisors commenced coverage of AtCor Medical. We believe this is critical step in communicating our value proposition to the financial community, expanding our shareholder base and increasing the share price.



Economic and Clinical Considerations:

The cost of health care delivery in the west is unsustainable. Focusing resources on managing overt, expensive, late-stage disease is bankrupting health fund budgets. Similarly, emerging markets cannot afford to follow the old path. There is broad consensus that the model must move to early risk and disease identification, appropriate intervention and management. The need is urgent and the deployment of innovative, cost-effective technologies is a core requirement of this new model. We believe SphygmoCor is well positioned and out in front of this fundamental shift.

With undiagnosed and untreated cardiovascular disease (CVD) and its related complications, including kidney disease and diabetes, the need is acute. The healthcare costs associated with managing CVD are approaching € 169 billion in the EU, A\$4 billion in Australia and US\$394 billion in the US. Expensive imaging technologies for screening and assessment are being curtailed by private and public payers.

There are now over 1,300 peer-reviewed publications referencing AtCor's SphygmoCor technology (Reference: Scholar Google Database). In addition to the Anglo Cardiff II trial, other important papers published in 2008 included **The Aortic Blood Pressure and Survival Study Group** of 1,109 participants followed for 4.5 years. The finding concluded that "Central pulsatility was the most powerful predictor of the primary end point" (cardiovascular death, myocardial infarction, stroke, cardiac arrest, heart transplantation, myocardial revascularization). **The Science Supports the Need.**

Focus on Pharma:

AtCor has established value-driven business relationships with 8 major pharmaceutical companies. Over 100 new trial sites were added in 2008. Exposure and effective performance in these trials are fundamental to adoption in clinical practice.

Pharma clinical trial sites are primarily located in clinical cardiology and internal medicine practices. Our leadership position in the pharma trials segment continues to be built on both our strong clinical evidence and our customer-focused clinical trial support services. This market will continue to be strategically important for the long-term.

Most importantly, pharma is investing in this technology today as companies foresee the increasing importance of central pressures and intend to be ahead of the scientific curve. At the joint meeting of the European Society of Hypertension and International Society of Hypertension in June in Berlin, a major pharma asked AtCor to set up four stations to measure central pressures within its exhibit space. Close to 600 researchers and clinicians had their central pressures measured with SphygmoCor.

AtCor Medical continues to build its brand and market share position in the clinical trials market. We look for further growth and uptake in this segment in 2009.

Focus on Geographic Expansion

AtCor entered 4 new markets, including Turkey and Russia, in 2008. SphygmoCor is now sold and marketed in 48 countries around the world. We have found the developing markets to be very open to adopting new, innovative technologies. Further expansion in Eastern Europe and the Middle East is planned for 2009.

Focus on Clinical Evidence and Adoption

The legacy work conducted in this and previous periods by AtCor Medical gained important traction in 2008. There is a growing consensus that the clinical evidence surrounding the importance of central pressures is of sufficient magnitude and depth that it must receive more focus and attention from the medical community. Even in advance of the Cardiff II trial results, key opinion leaders were stating that central pressures should be used in all pharmaceutical trials and the technology is now ready for use by sophisticated specialists in clinical practice (<http://www.theheart.org/article/827359.do>).

During the year, a number of physicians in the US commenced receiving reimbursement on a local practice level by utilizing the "unlisted cardiovascular procedure" code. This code was designated by the American Medical Association as an interim coding step for SphygmoCor. In parallel, we continue to execute on a very deliberate plan to drive a more standard coding decision for arterial tonometry (which is the basic technology employed by SphygmoCor) on a local and national level in the US. This includes working with relevant medical societies, key opinion leaders and appropriate legislative bodies. We look forward to further advancing these initiatives and reporting on additional clinical papers during the coming year. These papers will bring sharper focus for the physician on the effective utilization of SphygmoCor in clinical practice.

Focus on Equity Research and Communication:

We were delighted to have Taylor Collison initiate coverage on the Company from March 2008. The result of their analysis was not surprising. AtCor represents a significant upside investment opportunity on a discounted cash flow basis/discounted multiple of earnings basis and on a comparative basis, was considered undervalued against a basket of ASX listed medical instrumentation businesses. While we continue to be disappointed by our share price performance, since Taylor Collison commenced coverage in March our share price has doubled while the Intersuisse Biotech index has fallen 1.4 %. The full complement of Taylor's coverage is available on the investor relations section of our website.

Focus on 2009 Forward

We believe AtCor Medical is well positioned to take advantage of the market dynamics and resulting requirements impacting healthcare and the medical device industry. We have brought together a talented and committed group of people who passionately believe in our technology and the value it can bring to patients, clinicians and stakeholders.

AtCor has a very deliberate plan to reach our objectives. We are executing effectively on that plan daily. AtCor stands for committed, talented people, real products (both in the market and in our development pipeline), real revenue and real results. We sincerely appreciate and value the trust you have placed in us. We look forward to keeping you apprised of our progress.

A handwritten signature in black ink, appearing to read 'Duncan R. Ross', with a long horizontal flourish underneath.

Duncan R. Ross
Chicago, Illinois USA
21 August 2008

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of AtCor Medical Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

Directors

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

D O'Dwyer
D R Ross
A R Harricks (retired 14 November 2007)
M O'Rourke
P Jenkins
L McIntyre

Principal activities

During the year the principal continuing activities of the Group consisted of designing, manufacturing and marketing medical devices for use in cardiovascular management.

Dividends - AtCor Medical Holdings Limited

No dividend was paid during the financial year and the directors do not recommend payment of a dividend.

Review of operations

The Group recorded sales of devices to hospitals, research institutions, pharmaceutical companies and clinicians during the year of \$6,450,599 (2007: \$4,858,562). The loss for the year after income tax amounted to \$3,792,731 (2007: \$5,183,053). Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the CEO's report on pages 5-8 of this annual report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any specific environmental legislation or regulations.

Information on directors

Donal O'Dwyer BEng, MBA. *Chairman - Independent non-executive.* Age 55.

Experience and expertise

Independent director of the Group since September 2004 and chairman since November 2004. Extensive experience in the cardiovascular sector. Prior to joining the AtCor Board he was worldwide President of Cordis Cardiology, the cardiology division of Johnson & Johnson.

Other current directorships

Non-executive director for 3 other listed public companies: Cochlear Ltd, Mesoblast Ltd and Sunshine Heart Inc.

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Board

Member of audit committee

Member of remuneration committee

Interests in shares and options

Direct: Nil

Indirect: 1,940,012 ordinary shares in AtCor Medical Holdings Limited

Duncan R. Ross BS *Managing Director and CEO.* Age 50

Experience and expertise

Executive director of the Group since November 2006. 25 Years in life sciences and medical device industry. Most recently Group President Fisher Scientific Inc and Apogent Technologies Inc before joining AtCor Medical.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

CEO

Interests in shares and options

Direct: 992,000 ordinary shares in AtCor Medical Holdings Limited

3,000,000 options over ordinary shares in AtCor Medical Holdings Limited

Indirect: Nil

Information on directors (continued)

Dr Michael O'Rourke A.M. MD, DSc *Non-executive director. Age 71.*

Experience and expertise

Co-founder and inventor of the core technology for the SphygmoCor system. Co-author of the standard reference textbook *McDonald's Blood Flow in Arteries*. He also serves on the editorial Board for the American Heart Association journal *Hypertension*.

Other current directorships

Victor Chang Foundation

Former directorships in last 3 years

None

Special responsibilities

Medical consultant.

Interests in shares and options

Direct: 4,521,359 ordinary shares in AtCor Medical Holdings Limited

Indirect: 4,110,587 ordinary shares in AtCor Medical Holdings Limited

Peter Jenkins. DSc (honorary) *Independent non-executive director. Age 73.*

Experience and expertise

Has served on the AtCor Group's Board since 2000, including 4 years as chairman. Consultant to Colonial First State Private Equity until his retirement in December 2005.

Other current directorships

Non-executive director of 2 unlisted companies: Queensland BioCapital Funds Ltd and Access Macquarie Ltd.

Former directorships in last 3 years

None

Special responsibilities

Chair of remuneration committee

Member of audit committee

Interests in shares and options

Direct: 893,766 ordinary shares in AtCor Medical Holdings Limited

Dr Lisa McIntyre. BSc (hons), PhD *Independent non-executive director. Age 42.*

Experience and expertise

Independent director for the Group since January 2005. Currently director of L.E.K Consulting Pty Ltd, an international strategy consulting firm, and head of Asia-Pacific life sciences practice.

Other current directorships

Non-executive director of 1 publicly listed company: Biotech Capital Ltd. Also a director of the Garvan Institute of Medical Research.

Former directorships in last 3 years

None

Special responsibilities

Chair of audit committee

Member of remuneration committee

Interests in shares and options

Direct: Nil

Indirect: 250,000 ordinary shares in AtCor Medical Holdings Limited

Company secretary

The company secretary is Peter Manley (BBus, CPA, ACIS). Peter was appointed to the position of company secretary in March 2005. He also holds the position of Chief Financial Officer. Before joining AtCor Medical Holdings Limited he was Company Secretary and CFO for Sirtex Medical Ltd, a publicly listed medical device company. Prior to this he has held financial positions in a variety of large Australian and foreign-owned corporations.

Information on directors (continued)

Meetings of directors

The numbers of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2008, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees			
	A	B	A	B	Audit		Remuneration	
					A	B	A	B
D O'Dwyer (chairman)	8	8	8	8	3	3	2	2
D R Ross (CEO)	8	8	*	*	**	**	**	**
M O'Rourke	8	8	8	8	**	**	**	**
P Jenkins	8	8	8	8	3	3	2	2
L McIntyre	8	8	8	8	3	3	2	2
A.R Harricks (retired 14 Nov 2007)	3	3	*	*	**	**	**	**

A = Number of meetings attended

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

* = Not a non-executive director

** = Not a member of the relevant committee

Retirement, election and continuation in office of directors

AR Harricks retired by rotation as a director on 14 November 2007. He did not seek reappointment.

L McIntyre retired by rotation as a director on 14 November 2007 and was re-elected as a director.

Remuneration report

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

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

The information provided under headings A-E includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

A Principles used to determine the nature and amount of remuneration

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

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

Alignment to shareholders' interests:

- has company growth as a core component of plan design
- focuses on sustained long-term growth in shareholder wealth
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in company value
- provides a clear structure for earning rewards
- provides recognition for contribution.

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

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also refers to external surveys to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors are entitled to receive share options, following approval by the shareholders of AtCor Medical Holdings Limited. No options have been offered to Directors during the reporting period.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)

Directors' fees

The current base remuneration was last reviewed with effect from 1 November 2005. Fees are inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at \$260,000.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the AtCor Medical Holdings Employee Share Option Plan, and
- other remuneration such as superannuation.

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

Base pay

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration advisors provide ad hoc advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

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

Benefits

Executives receive benefits may include health insurance and car allowances.

Retirement benefits

Statutory superannuation payments are made quarterly to a fund selected by Australian based executives. Executives may also elect to salary sacrifice additional payments to their fund. No other retirement benefits are offered.

Short-term incentives

Each executive has a target short-term incentive (STI) opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance.

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

For the year ended 30 June 2008, the KPIs linked to STI plans were based on group, individual business and personal objectives. The KPIs required performance in growing sales revenue, managing operating expenses and cash, and achieving specific targets in relation to project advancement, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are specific to each of the senior executives.

The remuneration committee is responsible for assessing whether the KPIs are met. To help make this assessment, the committee receives detailed reports on performance from management.

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

The STI target annual payment is reviewed annually.

AtCor Medical Holdings Employee Share Option Plan

Information on the AtCor Medical Holdings Share Option Plan is set out on page 18.

Remuneration report (continued)

B Details of remuneration

Amounts of remuneration

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

The key management personnel of AtCor Medical Holdings Limited includes the directors as per pages 10 - 11 above and the following executives officers.

- Peter Manley – *Chief Financial Officer*

The key management personnel of the Group are the directors of AtCor Medical Holdings Limited (see pages 10-11 above) and those executives that report directly to the CEO or who have authority to significantly influence the direction of the Group. The executives are:

- Peter Manley – *Chief Financial Officer*
- Douglas Kurschinski – *Senior Vice President US Commercial Operations (AtCor Medical Inc)*

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *Short-term incentives* above. Options are granted at the discretion of the Board, on recommendation from the remuneration committee. Other elements of remuneration are not directly related to performance.

Key management personnel of AtCor Medical Holdings Limited

2008

Name	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
<i>Non-executive directors</i>							
D O'Dwyer (<i>Chairman</i>)	70,000	-	-	6,300	-	-	76,300
M O'Rourke	20,000	-	-	1,800	-	-	21,800
P Jenkins	50,000	-	-	4,500	-	-	54,500
L McIntyre	50,000	-	-	4,500	-	-	54,500
A.R Harricks (<i>retired 14 Nov 07</i>)	-	-	-	-	-	-	-
Sub-total non-executive directors	190,000	-	-	17,100	-	-	207,100
<i>Executive directors</i>							
D R Ross (<i>CEO</i>)	320,130	126,427	10,263	-	-	54,950	511,770
<i>Other key management personnel</i>							
P Manley	154,151	23,076	23,305	12,686	-	27,312	240,530
Totals	664,281	149,503	33,568	29,786	-	82,262	959,400

2007

Name	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
<i>Non-executive directors</i>							
D O'Dwyer (<i>Chairman</i>)	70,000	-	-	6,300	-	-	76,300
M O'Rourke	20,000	-	-	1,800	-	-	21,800
P Jenkins	50,000	-	-	4,500	-	-	54,500
L McIntyre	50,000	-	-	4,500	-	-	54,500
Sub-total non-executive directors	190,000	-	-	17,100	-	-	207,100
<i>Executive directors</i>							
D.R. Ross (<i>CEO</i>)	341,737	139,691	10,537	-	-	77,279	569,244
A.R Harricks (<i>CEO until 9 Nov '06</i>)	200,769	39,500	-	23,622	-	-	263,891
<i>Other key management personnel</i>							
P Manley	151,681	14,712	23,369	12,686	-	47,551	249,999
Totals	884,187	193,903	33,906	53,408	-	124,830	1,290,234

Remuneration report (continued)
B Details of remuneration (continued)
Amounts of remuneration (continued)

Key management personnel of the Group

2008	Short-term employee benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
<i>Non-executive directors</i>							
D O'Dwyer (Chairman)	70,000	-	-	6,300	-	-	76,300
M O'Rourke	20,000	-	-	1,800	-	-	21,800
P Jenkins	50,000	-	-	4,500	-	-	54,500
L McIntyre	50,000	-	-	4,500	-	-	54,500
A.R Harricks (retired 14 Nov 07)	-	-	-	-	-	-	-
Sub-total non-executive directors	190,000	-	-	17,100	-	-	207,100
<i>Executive directors</i>							
D R Ross (CEO)	320,130	126,427	10,263	-	-	54,950	511,770
<i>Other key management personnel</i>							
P Manley	154,151	23,076	23,305	12,686	-	27,312	240,530
D Kurschinski	223,975	77,990	12,845	-	-	24,599	339,409
Totals	888,256	227,493	46,413	29,786	-	106,861	1,298,809

2007	Short-term employee benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
<i>Non-executive directors</i>							
D O'Dwyer (Chairman)	70,000	-	-	6,300	-	-	76,300
M O'Rourke	20,000	-	-	1,800	-	-	21,800
P Jenkins	50,000	-	-	4,500	-	-	54,500
L McIntyre	50,000	-	-	4,500	-	-	54,500
Sub-total non-executive directors	190,000	-	-	17,100	-	-	207,100
<i>Executive directors</i>							
D R Ross (CEO)	341,737	139,691	10,537	-	-	77,279	569,244
A.R Harricks (CEO until 9 Nov '06)	200,769	39,500	-	23,622	-	-	263,891
<i>Other key management personnel</i>							
P Manley	151,681	14,712	23,369	11,286	-	47,551	249,999
D Kurschinski	229,488	62,931	17,477	-	-	19,119	329,015
Totals	1,113,675	256,834	51,383	53,408	-	143,949	1,619,249

Remuneration report (continued)

C Service agreements

Remuneration and other terms of employment for the CEO and the other key management personnel are formalised in employment agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including health insurance and car allowances, and participation, when eligible, in the AtCor Medical Holdings Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

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

D R Ross, *CEO*

- Term of agreement – permanent. Commenced 8 May 2006
- Base salary, inclusive of health benefits, for the year ended 30 June 2008 of US\$295,340, to be reviewed annually by the remuneration committee.
- Relocation costs of US\$60,000 are payable upon Mr Ross' relocation from Dubuque, IA to Chicago, IL.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the 1 year's base salary for the remaining term of the agreement if termination occurs within 12 months of the start date, or 6 months if more than 12 months of the start date.

In the event of a significant change in duties, material diminution in status or responsibilities, or Mr Ross is required to relocate more than 40 miles from his employment location, a 90-day option to exercise termination is available with payment equal to 1 year's base salary.

P Manley, *Chief Financial Officer*

- Term of agreement – permanent. Commenced 28 February 2005
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of \$193,491, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the 1 month base salary for the remaining term of the agreement.

D Kurschinski, *Vice President Business Development, AtCor Medical Inc.*

- Term of agreement – permanent. Commenced 12 April 2004
- Base salary, inclusive of health benefits, for the year ended 30 June 2008 of US\$211,494, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 1 month's base salary for the remaining term of the agreement. In the event of a change in control and if termination occurs within 90 days of the change of control payment of a termination benefit of equal to 6 month's base salary is payable.

Remuneration report (continued)

D Share-based compensation

Options

Options are granted under the AtCor Medical Holdings Employee Share Option Plan, which was approved by shareholders at the 1 November 2005 annual general meeting and amended at the 9 November 2006 AGM. All staff are eligible to participate in the plan (including executive directors). Options are granted at the discretion of the Board based on recommendations from the remuneration committee.

Options are granted under the plan for no consideration. Options are granted for a 5 year period, and one third of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
9 Nov 2005	9 Nov 2010	\$0.50	\$0.22	9 Nov 2006
9 Nov 2005	9 Nov 2010	\$0.50	\$0.24	9 Nov 2007
9 Nov 2005	9 Nov 2010	\$0.50	\$0.26	9 Nov 2008
8 May 2006	8 May 2011	\$0.50	\$0.06	8 May 2007
8 May 2006	8 May 2011	\$0.50	\$0.07	8 May 2008
8 May 2006	8 May 2011	\$0.50	\$0.08	8 May 2009
22 Sep 2006	22 Sep 2011	\$0.50	\$0.03	22 Sep 2007
22 Sep 2006	22 Sep 2011	\$0.50	\$0.03	22 Sep 2008
22 Sep 2006	22 Sep 2011	\$0.50	\$0.04	22 Sep 2009
14 Dec 2006	14 Dec 2011	\$0.50	\$0.03	14 Dec 2007
14 Dec 2006	14 Dec 2011	\$0.50	\$0.04	14 Dec 2008
14 Dec 2006	14 Dec 2011	\$0.50	\$0.05	14 Dec 2009
22 Aug 2007	22 Aug 2012	\$0.15	\$0.05	22 Aug 2008
22 Aug 2007	22 Aug 2012	\$0.15	\$0.06	22 Aug 2009
22 Aug 2007	22 Aug 2012	\$0.15	\$0.06	22 Aug 2010
14 Nov 2007	14 Nov 2012	\$0.15	\$0.04	14 Nov 2008
14 Nov 2007	14 Nov 2012	\$0.15	\$0.04	14 Nov 2009
14 Nov 2007	14 Nov 2012	\$0.15	\$0.05	14 Nov 2010

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within ten days following the receipt of exercise notice, payment and the original option certificate.

The exercise price of options is to be no less than the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Details of options over ordinary shares in the company provided as remuneration to each director of AtCor Medical Holdings Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of AtCor Medical Holdings Limited. Further information on the options is set out in note 33 to the financial statements.

Remuneration report (continued)
D Share based compensation (continued)

<i>Options Granted to Directors and other key management personnel under the Employee Share Option Plan since 30 June 2008</i>					
No options have been granted in the period from 30 June 2008 to the date of this report.					
<i>Details of Option Values</i>					
The numbers of options to purchase our ordinary shares held as at the date of this report by each Director of AtCor Medical Holdings and each of the other key management personnel are listed below. When exercisable, each option is convertible into one ordinary share of AtCor Medical Holdings					
Name	Financial year granted	# of securities	Exercise price	Expiration date	Vested and exercisable at end of financial year
<i>Directors</i>					
D O'Dwyer (Chairman)	-	-	-	-	-
D R Ross (CEO)	2006 2008	2,000,000 1,000,000	\$0.50 \$0.15	8 May 11 14 Nov 12	1,333,334 -
M O'Rourke	-	-	-	-	-
P Jenkins	-	-	-	-	-
A R Harricks (retired 14 Nov 07)	-	-	-	-	-
<i>Other executives</i>					
P. Manley	2006 2008	500,000 200,000	\$0.50 \$0.15	9 Nov 10 22 Aug 12	333,334 -
D Kurschinski	2007 2008	575,000 600,000	\$0.50 \$0.15	22 Sep 11 22 Aug 12	191,667 -

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration, one third of each tranche vests and is exercisable after each of the first 3 anniversaries of the date of grant
- (b) exercise price: \$0.15 (2007- \$0.50)
- (c) expiry date: 5 years from grant date (2007 - 5 years from grant date)
- (d) Weighted average share price at grant date: \$0.13 (2007- \$0.17)
- (e) expected price volatility of the company's shares: 60% (2007- 60%)
- (f) expected dividend yield: nil% (2007- nil%)
- (g) risk-free interest rate: 6.50% (2007- 5.75%).

Shares provided on exercise of remuneration options

No ordinary shares in the company were provided as a result of the exercise of remuneration options for any director of AtCor Medical Holdings Limited or other key management personnel of the Group in current or previous financial years.

No amounts are unpaid on any shares issued on the exercise of options.

Remuneration report (continued)

E Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

A bonus structure is used to reward executives for performance against short term (current year) Group and personal goals. Longer term company performance is ensured through participation by executives in the company share option plan.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 15 and 16, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The options vest in three equal tranches over 3 years, provided the beneficiary is still employed by the Group at the time of vesting. No options will vest if this condition is not satisfied, hence the minimum value of the option yet to vest is nil.

Name	Cash bonus		Options					
	Paid %	Forfeited %	Financial year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
D R Ross (CEO)	69	31	2006	100%	-	2007	-	-
				-	-	2008	-	-
				-	-	2009	-	54,259
			2008	-	-	2009	-	13,291
				-	-	2010	-	14,741
-	-	2011		-	16,064			
P Manley	76	24	2006	100%	-	2007	-	-
				-	-	2008	-	-
				-	-	2009	-	42,506
			2008	-	-	2009	-	3,558
				-	-	2010	-	3,879
-	-	2011		-	4,171			
D Kurschinski	81	19	2007	-	-	2008	-	-
				-	-	2009	-	6,384
				-	-	2010	-	7,577
			2008	-	-	2009	-	10,674
				-	-	2010	-	11,638
-	-	2011		-	12,514			

Share-based compensation: Options

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
D O'Dwyer (Chairman)	-	-	-	-	-
D R Ross (CEO)	10.7%	54,950	-	-	54,950
M O'Rourke	-	-	-	-	-
P Jenkins	-	-	-	-	-
A R Harricks (retired 14 Nov 07)	-	-	-	-	-
P Manley	11.4%	27,312	-	-	27,312
D Kurschinski	7.2%	24,599	-	-	24,599

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Shares under option

Unissued ordinary shares of AtCor Medical Holdings Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
9 November 2005	9 Nov 2010	\$0.50	500,000
8 May 2006	8 May 2011	\$0.50	2,000,000
22 September 2006	22 Sep 2011	\$0.50	1,790,000
14 December 2006	14 Dec 2011	\$0.50	500,000
22 August 2007	22 Aug 2012	\$0.15	2,675,000
14 November 2007	14 Nov 2012	\$0.15	1,000,000
			8,465,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

No ordinary shares of AtCor Medical Holdings Limited were issued during the year ended 30 June 2008 on the exercise of options granted under the AtCor Medical Holdings Employee Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Loans to directors and executives

Information on loan to directors and executives, including amounts, interest rates and repayment terms are set out in Note 23 to the accounts.

Transaction with directors

A director, M O'Rourke, provides consulting services to the Group as a medical advisor, for which he receives a monthly retainer. This agreement is based on normal commercial terms and conditions. The amount paid for the year ended 30 June 2008 is \$152,145.

Insurance of officers

During the financial year, AtCor Medical Holdings Limited paid a premium of \$16,324 to insure the director and secretaries of the company and its Australian-based controlled entities, and the general managers of each of the divisions of the Group.

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

Proceedings on behalf of the company

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

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

Non-audit services

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

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in the relevant professional requirements, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

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

	Consolidated	
	2008	2007
	\$	\$
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	97,425	101,500
Total remuneration for audit services	97,425	101,500
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Audit of Commercial Ready grant program	8,450	-
Total remuneration for other assurance services	8,450	-
Total remuneration for assurance services	8,450	-

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



Director

Sydney
21 August 2008

Auditor's Independence Declaration

As lead auditor for the audit of AtCor Medical Holdings Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AtCor Medical Holdings Limited and the entities it controlled during the period.



Mark Dow
Partner
PricewaterhouseCoopers

Sydney
21 August 2008

Corporate governance statement

AtCor Medical Holdings Limited (the company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The company and its controlled entities together are referred to as the Group in this statement.

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

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the CEO and senior executives as set out in the Group's authorisations policy.

A description of the company's main corporate governance practices is set out below. The Board charter is available upon request to shareholders and other interested parties. All these practices, unless otherwise stated, were in place for the entire year.

The Board of directors

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

Board composition

The composition of the Board is determined with regard to the following criteria:

- the number of directors is limited by Article 6.1(a) of the company's constitution to not less than 3 and not more than 12. The Board considers the present complement of 5 directors (including the Chief Executive Officer) is appropriate and therefore casual vacancies shall be filled as and when they arise to maintain this complement.
- the Chairman of the Board will be an independent director.
- the Board will comprise a majority of non-executive directors.
- the Board requires directors to have a broad range of commercial expertise and experience and/or appropriate professional qualifications that will contribute to Board deliberations and decision-making.
- Board members must have a proven ability and capacity to monitor company performance and participate in strategy development.
- the remuneration committee will make recommendations to the Board regarding the remuneration and composition of the Board on proposed performance review criteria.

Responsibilities

The responsibilities of the Board include:

- ensuring that appropriate controls, systems and procedures are in place within AtCor to manage business risks and to ensure compliance with all regulatory and prudential requirements;
- reviewing matters of general corporate governance;
- appointing, assessing the performance assessment of and, if necessary, removal of the Chief Executive Officer;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- overseeing the performance and activities of AtCor through agreed goals and strategies, including approving the budget, the business plan and compliance policies, and monitoring the strategic and financial objectives and performance of the group.
- monitoring the management of AtCor's business;
- ensuring appropriate succession planning for the CEO and senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- recommending the appointment, and reviewing the performance, of directors; and
- effectively communicating the Group's financial position, trading performance and prospects to all stakeholders, in particular, shareholders, clients and employees.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". There are four non-executive directors, three of whom are deemed independent under the principles set out below and one executive director at the date of signing the directors' report.

Directors' independence

The Board will regularly assess the independence of each director with regard to interests disclosed by them.

In assessing independence, a director will be regarded as independent if that person is a non-executive director and is free from any interest and other business relationship that could materially interfere with that person's ability to act in the best interests of AtCor. Particularly, they must not be or have been:

- a substantial shareholder of AtCor or associated with a substantial shareholder of AtCor;
- an executive of AtCor for the last three years;
- a principal of a material professional advisor or an employee of a material service provider for the last three years;
- a material supplier to or a customer of AtCor or its subsidiaries

If one of these relationships exist, either directly or through a related party interest, the Board may still consider a director to be independent however it must clearly state the reasons for this decision in the Annual Report. If the independent status of a director is lost this will be disclosed to the market immediately.

A substantial shareholding is considered to be more than 5%.

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

Non-executive directors

The non-executive directors met eight times during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Any director who retires by rotation may seek re-election by shareholders in accordance with the Constitution. In this case, while the Board may indicate to shareholders it supports the re-election of a director; it will not provide any direct or indirect financial encouragement to achieve this end.

Chairman and Chief Executive Officer (CEO)

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

The chairman shall be a non-executive director and is elected by the directors.

The CEO is responsible for developing and implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

The Board held 8 Board meetings during the year. It is the Board's practice to hold those meetings at the company premises in West Ryde unless circumstances prevent this occurring.

The number of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2008, and the number of meetings attended by each director is disclosed on page 12.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2008.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the company.

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

Conflict of interests

Entities connected with Dr O'Rourke had business dealings with the consolidated entity during the year, as described in note 23 to the financial statements. In accordance with the Board charter, the director concerned declared his interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, or if the director is the Chairman then prior written approval of a majority of the non-executive directors is required, but this will not be unreasonably withheld.

Performance assessment

The Board will meet at least once each year to review its performance and that of its committees and senior executives. At this time, it will also review the relationship between the Board and management and matters of general corporate governance.

At least once every year, the Chairman of the Board will review the performance and contribution of each non-executive director. The Chairman may, at any time or on the recommendation of the Remuneration Committee, request the Board as a whole (other than the director concerned) vote on the question of whether a particular director should remain on the Board. If the majority of directors vote that this director should not remain on the Board, they are expected to resign or refrain from standing for re-election, whichever is more appropriate.

Corporate reporting

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

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

Board committees

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration & nomination and audit committees. Each is comprised entirely of non-executive directors.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Remuneration and Nomination committee

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

P Jenkins (Chairman)
D O'Dwyer
L McIntyre

The charter requires the committee to consist of at least three directors, a majority of whom must be independent directors.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 12.

The remuneration committee operates in accordance with its charter, which is available upon request. The role of AtCor's remuneration committee is to ensure the Board fulfils its corporate governance and oversight responsibilities relating to nominating and remunerating directors and senior executives, ensuring the directors and senior management are remunerated fairly and responsibly and overseeing the remuneration and human resources policies of the Group.

The committee will provide advice and make recommendations to the Board in relation to:

- The remuneration and benefits of directors, CEO and members of the senior executive team, consisting of those executives reporting to the CEO, including their share plans, options or other similar benefit or bonus plans;
- Targets and budgets for AtCor's financial performance as they relate to incentive plans, and the performance-based (at risk) components of remuneration;
- Remuneration policy and any changes to the remuneration policy and practices for all employees whose remuneration is not determined through Awards or Enterprise Bargaining Agreements; and
- Allocations and terms of offer under all equity-based incentive for remuneration plans.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading "Remuneration report".

The committee also assumes responsibility for making recommendations regarding Board composition and size, criteria for Board membership and evaluating Board performance.

Audit committee

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

L McIntyre (Chairman)
D O'Dwyer
P Jenkins

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 10 - 12.

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

The audit committee operates in accordance with a charter, which is available upon request. The main responsibilities of the committee are to:

- review and approve all significant accounting policy changes and to evaluate the adequacy and effectiveness of the Group's administrative, operating and accounting policies; management information and control systems; and policies to reduce exposure to fraud;
- ensure that management pays due attention to ethical considerations in implementing the company's policies and practices;
- oversee the effective operation of the risk management framework;
- review the accuracy and integrity of financial and regulatory reports and annual and half yearly financial statements before that are released publicly;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - ◆ effectiveness and efficiency of operations
 - ◆ reliability of financial reporting
 - ◆ compliance with applicable laws and regulations;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety;
- report to the Board on matters relevant to the committee's role and responsibilities.

Note the company has not implemented an internal audit function to date due to the size of the organization.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management;
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

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

External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2005.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 24 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

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

Risk assessment and management

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

A comprehensive quality system is in place that is reviewed regularly by various regulatory bodies from around the world. This quality system places considerable importance on maintaining a strong control environment.

Code of Conduct

The company requires the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

At all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is only permitted during the thirty-day period following the release of the half-yearly and annual financial results to the market and following the Annual General Meeting.

The company's trading policy is discussed with each new employee as part of their induction training.

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

Continuous disclosure and shareholder communication

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

Any information to be disclosed to the ASX is subjected to review and authorisation by at least 2 directors before its release. This ensures that the information released is accurate.

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

AtCor has adopted the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 that makes the annual report available on the company's website and only provides a printed copy to those members who elect to receive it in this form.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on company matters.

Compliance with Corporate Governance Principles and Recommendations

Principle 1: Lay solid foundation for management and oversight

Board and management roles are defined via a Board charter, shown in the Corporate Governance statement preceding.

Principle 2: Structure the board to add value

AtCor is in compliance with principle 2, as follows:

- The majority of the Board are independent directors;
- The chairman is an independent director;
- The chairman and CEO are different people; and
- A nomination committee exists, and its membership comprises independent directors.

Principle 3: Promote ethical and responsible decision making

The Board works within an ethical framework including a clearly enunciated share trading policy.

Principle 4: Safeguard integrity in financial reporting

The company has an audit committee whose membership and charter are disclosed on page 27.

Principle 5: Make timely and balanced disclosure

AtCor complies with this principle as disclosed on page 28.

Principle 6: Respect the rights of shareholders

AtCor is active in communicating with its shareholders, including posting all announcements to a separate section on its website. The company complies with this principle.

Principle 7: Recognise and manage risk

The company complies with this principle as disclosed on page 28

Principle 8: Encourage enhanced performance

Board and management performance is assessed on a regular basis

Principle 9: Remunerate fairly and responsibly

Remuneration principles are disclosed on pages 13-14. An assessment of senior management's performance against set targets is made by the Remuneration committee at least annually.

Principle 10: Recognise the legitimate interests of stakeholders

AtCor complies with this principle as disclosed on page 28.

AtCor Medical Holdings Limited ABN 81 113 252 234

Annual financial report – 30 June 2008

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This financial report covers both AtCor Medical Holdings Limited as an individual entity and the consolidated entity consisting of AtCor Medical Holdings Limited and its subsidiaries. The financial report is presented in the Australian currency.

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

Suite 11, 1059-1063 Victoria Road
West Ryde NSW 2114

A description of the nature of the consolidated entity's operations and its principal activities is included in the CEO's report and activities on pages 5 to 8 and in the directors' report on pages 9-22, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 21 August 2008. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Investors section on our website: www.atcormedical.com.

AtCor Medical Holdings Limited
Income statements
For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue from continuing operations					
Revenue from sale of goods	5	6,450,599	4,858,562	-	-
Other revenue	5	418,417	666,365	454,146	1,150,365
Total revenue		6,869,016	5,524,927	454,146	1,150,365
Other income	6	494,352	210,856	-	297,520
Other expenses from ordinary activities					
Cost of sale of goods		(1,286,070)	(1,011,069)	-	-
Depreciation and amortisation		(147,988)	(161,849)	-	-
Marketing and sales expense		(4,923,022)	(5,918,479)	-	-
Product development and regulatory expense		(2,154,111)	(1,689,553)	-	-
Occupancy expense		(160,356)	(195,830)	-	-
Administration expense		(2,261,339)	(2,124,332)	(1,361,139)	(1,816,732)
Foreign exchange losses		(157,506)	(47,548)	(463,123)	(378,211)
Loss before income tax	7	(3,727,024)	(5,412,877)	(1,370,116)	(747,058)
Income tax (expense)/benefit	8	(65,707)	229,824	(63,686)	269,062
Loss for the year		(3,792,731)	(5,183,053)	(1,433,802)	(477,996)
Loss attributable to members of AtCor Medical Holdings Limited	21	(3,792,731)	(5,183,053)	(1,433,802)	(477,996)
Earnings per share for loss attributable to the ordinary equity holders of the company:					
Basic earnings per share	32	(3.8)	(5.2)		
Diluted earnings per share	32	(3.8)	(5.2)		

The above income statements should be read in conjunction with the accompanying notes.

AtCor Medical Holdings Limited
Balance sheets
As at 30 June 2008

	Notes	Consolidated		Parent entity	
		2008 \$	2007 \$	2008 \$s	2007 \$
ASSETS					
Current assets					
Cash and cash equivalents	9	3,316,165	6,999,422	2,173,924	6,200,410
Trade and other receivables	10	1,877,475	1,445,712	435,366	570,296
Inventories	11	401,157	383,032	-	-
Other	12	99,774	195,714	3,848	5,037
Total current assets		5,694,571	9,023,880	2,613,138	6,775,743
Non-current assets					
Receivables	13	1,683,833	1,828,396	13,228,102	9,821,736
Other financial assets	14	-	-	20,132,000	20,132,000
Property, plant and equipment	15	350,166	284,280	-	-
Intangible assets	16	222,348	268,023	-	-
Total non-current assets		2,256,347	2,380,699	33,360,102	29,953,736
Total assets		7,950,918	11,404,579	35,973,240	36,729,479
LIABILITIES					
Current liabilities					
Trade and other payables	17	1,952,813	1,984,695	1,955,801	1,475,431
Provisions	18	19,237	19,237	-	-
Total current liabilities		1,972,050	2,003,932	1,955,801	1,475,431
Non-current liabilities					
Provisions	19	17,371	18,175	-	-
Total non-current liabilities		17,371	18,175	-	-
Total liabilities		1,989,421	2,022,107	1,955,801	1,475,431
Net assets		5,961,497	9,382,472	34,017,439	35,254,048
EQUITY					
Contributed equity	20	28,981,611	28,981,611	35,438,901	35,438,901
Reserves	21(a)	588,203	216,447	413,640	216,447
Accumulated losses	21(b)	(23,608,317)	(19,815,586)	(1,835,102)	(401,300)
Total equity		5,961,497	9,382,472	34,017,439	35,254,048

The above balance sheets should be read in conjunction with the accompanying notes.

AtCor Medical Holdings Limited
Statements of changes in equity
For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Total equity at the beginning of the financial year		9,382,472	14,406,647	35,254,048	35,573,168
Exchange difference on translation of foreign operations	21(a)	174,563	-	-	-
Income recognised directly in equity		174,563	-	-	-
Loss for the year		(3,792,731)	(5,183,051)	(1,433,802)	(477,996)
Total recognised income and expense for the year		(3,618,168)	(5,183,051)	(1,433,802)	(477,996)
Transactions with equity holders in their capacity as equity holders:					
Employee share options	33	197,193	158,876	197,193	158,876
Total equity at the end of the financial year		5,961,497	9,382,472	34,017,439	35,254,048
Total recognised income and expense for the year is attributable to:					
Members of AtCor Medical Holdings Limited		(3,792,731)	(5,183,051)	(1,433,802)	(477,996)

The above statements of changes in equity should be read in conjunction with the accompanying notes.

AtCor Medical Holdings Limited
Cash flow statements
For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008 \$	2007 \$	2008 \$s	2007 \$
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		6,123,820	5,024,035	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(10,629,444)	(10,258,059)	(1,059,976)	(841,452)
		(4,505,624)	(5,234,024)	(1,059,976)	(841,452)
Other revenue		464,171	210,856	-	513,400
Interest received		262,980	534,834	298,709	297,520
Net cash outflow from operating activities	31	(3,778,473)	(4,488,334)	(761,267)	(30,532)
Cash flows from investing activities					
Payments for property, plant and equipment		(168,199)	(264,943)	-	-
Repayment of related party loans		300,000	-	(3,250,930)	(4,969,606)
Net cash (outflow) inflow from investing activities		131,801	(264,943)	(3,250,930)	(4,969,606)
Net decrease in cash and cash equivalents		(3,646,672)	(4,753,227)	(4,012,197)	(5,000,138)
Cash and cash equivalents at the beginning of the financial year		6,999,422	11,811,378	6,200,410	11,210,024
Effects of exchange rate changes on cash and cash equivalents		(36,585)	(58,729)	(14,289)	(9,476)
Cash and cash equivalents at end of year	9	3,316,165	6,999,422	2,173,924	6,200,410

The above cash flow statements should be read in conjunction with the accompanying notes.

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1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for AtCor Medical Holdings Limited as an individual entity and the consolidated entity consisting of AtCor Medical Holdings Limited and its subsidiaries.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the financial report of AtCor Medical Holdings Limited complies with International Financial Reporting Standards (IFRSs).

Historical cost convention

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

Critical accounting estimates

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

b) Going concern

The consolidated entity has continued to experience operating losses and negative cash flows from operating activities during the year ended 30 June 2008, though at a reduced rate due primarily to the consolidated entity making significant progress in expanding its operations in the United States and Europe with a substantial increase in sales over the previous year. The Board regularly receives long term forecasts from management and has approved plans to manage cash inflows and outflows to ensure that the consolidated entity will have sufficient funds to meet its debts as and when they fall due for a period of at least 12 months from the date of this report.

In these circumstances the directors have considered the suitability of adopting the going concern basis for the preparation of this financial report and have concluded that it is the appropriate basis of preparation.

c) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

d) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AtCor Medical Holdings Limited ("company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. AtCor Medical Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(c)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

f) Foreign currency translation

(i) Functional and presentation currency

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

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised as follows:

(i) Medical devices

A sale is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risk has passed to the carrier or customer.

(ii) Services

Revenue from services is recognised over the period that the service is provided.

(iii) Interest

Interest income is recognised when the group becomes entitled to receive interest. Interest income is recognised at the prevailing interest rates.

h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

AtCor Medical Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of July 1 2005.

The head entity, AtCor Medical Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

k) Impairment of assets

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

l) Cash and equivalents

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

m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials only. Costs are assigned to individual items of stock on the basis of weighted average costs.

o) Investments and other financial assets

The Group classifies its other financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re evaluates this designation at each reporting date.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date that are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

p) Plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Manufacturing plant and equipment 3-10 years.
- Furniture, fixtures and equipment 3-5 years.

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

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

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

q) Intangible assets

i) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, currently 13 years.

ii) Research and development

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, which varies between 5-10 years.

r) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

s) Provisions

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

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

t) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Share based payments

Share based compensation benefits are provided to employees via the AtCor Medical Holdings Employee Share Option Plan (ESOP). Information relating to this scheme is set out in note 33.

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

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of directly attributable transaction costs are credited to share capital.

(v) Termination benefits

Termination benefits may become payable to some employees in the event of termination prior to expiry of their contract or upon change of control of AtCor Medical Holdings Limited or a subsidiary. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of the employees entitled to termination benefits, or when a change of control of a member of the Group is virtually certain. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

w) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included with other receivables or payable on the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, a tax authority are presented as operating cash flow.

y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123

AASB 2007-6 is applicable to reporting periods commencing on or after 1 January 2009. The Group has not adopted the standards early. Application of the standards will affect the borrowing costs charged to the income statement as costs that are attributable to qualifying assets have to be capitalized. It is not expected to have a material impact to the Group.

ii) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers' use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (primarily currency risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and aging analysis for credit risk.

Financial risk management is carried out by the Chief Financial Officer (CFO) and overseen by the Audit Committee, a subcommittee of the Board of Directors.

(a) Market risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

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

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

	30 June 2008		30 June 2007	
	USD	EUR	USD	EUR
Trade Receivables	1,034,959	348,272	729,460	114,709
Financial Assets	769,511	124,021	419,720	190,206
Trade Payables	(318,722)	(76,845)	(237,468)	(45,223)

The carrying amounts of the parent entity's financial assets and liabilities are denominated in AUD except as set out below:

	30 June 2008		30 June 2007	
	USD	EUR	USD	EUR
Trade Receivables	4,199,079	-	2,924,670	-
Financial Assets	824	-	106,624	-
Trade Payables	(480,891)	-	-	-

Sensitivity

Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre-tax loss for the year would have been \$172,611/(\$155,350) (2007: \$119,497/(\$107,547)). The increased exposure is due to increased cash and receivables held in foreign currencies as the business grows offshore.

The parent entity's pre-tax loss for the year ended 30 June 2008 would have been \$432,064/(\$388,857) (2007: \$397,304/(\$357,574)) had the AUD weakened/strengthened by 10% against the USD.

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group has no significant concentrations of credit risk. For banks and financial institutions, only independently rated and reputable parties are accepted. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Terms of trade provided to creditworthy customers are between 30 and 90 days, whilst customers deemed higher risk arrange a letter of credit or prepay for goods. The parent entity carries no receivables except for transactions with companies in the Group.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates their carrying values.

3. Critical accounting estimates and judgements

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

The financial report is prepared on the basis that the Company will continue as a going concern. The cash flow projection and other consideration made by the directors in these circumstances involve estimates and judgements of future cash flow that are believed to be reasonable.

The investment in subsidiaries recorded in the parent entity is based on discounted cash flow calculations that incorporate judgements and estimates of future earnings that are believed to be reasonable.

4. Segment information

(a) Description of segments

Business segments

The consolidated entity operates in one business segment being cardiovascular medical equipment sales.

Geographical segments

Although the consolidated entity's divisions are managed on a global basis they operate in three main geographical areas:

- North America
- Europe (includes Middle East and North Africa)
- Rest of World (includes Asia, Australia/NZ, and South America)

(b) Primary reporting format – geographical segments

2008	North America \$	Europe \$	Rest of World \$	Inter- segment eliminations/ unallocated \$	Consolidated \$
Sales to external customers	3,653,805	2,155,051	641,743	-	6,450,599
Intersegment sales	-	-	1,867,412	(1,867,412)	-
Total sales revenue	3,653,805	2,155,051	2,509,155	(1,867,412)	6,450,599
Other revenue/income	-	-	494,352	-	494,352
Total segment revenue/income	3,653,805	2,155,051	3,003,507	(1,867,412)	6,944,951
Segment result	(462,766)	107,246	(3,789,621)	-	(4,145,441)
Unallocated revenue less unallocated expenses					418,417
Loss before income tax					(3,727,024)
Income tax expense					(65,707)
Loss for the year					(3,792,731)
Segment assets	4,825,474	573,450	20,869,087	(18,522,469)	7,745,542
Unallocated assets					205,376
Total assets					7,950,918
Segment liabilities	(4,913,980)	(126,530)	(15,139,062)	18,190,151	(1,989,421)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	64,579	-	103,620	-	168,199
Depreciation and amortisation expense	8,866	-	139,122	-	147,988
Other non-cash expenses	-	-	197,193	-	197,193

4. Segment information (continued)

2007	North America \$	Europe \$	Rest of World \$	Inter- segment eliminations/ unallocated \$	Consolidated \$
Sales to external customers	2,897,413	1,366,426	594,723	-	4,858,562
Intersegment sales	-	-	4,263,839	(4,263,839)	-
Total sales revenue	2,897,413	1,366,426	4,858,562	(4,263,839)	4,858,562
Other revenue	-	-	210,856	-	210,856
Total segment revenue/income	2,897,413	1,366,426	5,069,418	(4,263,839)	5,069,418
Segment result	(3,224,617)	(490,864)	(2,363,761)	-	(6,079,242)
Unallocated revenue less unallocated expenses					666,365
Loss before income tax					(5,412,877)
Income tax benefit					229,824
Loss for the year					(5,183,053)
Segment assets	8,802,238	183,156	23,302,022	(21,151,899)	11,135,517
Unallocated assets					269,062
Total assets					11,404,579
Segment liabilities	(9,265,893)	(72,208)	(17,502,699)	24,818,693	(2,022,107)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	19,251	-	245,693	-	264,944
Depreciation and amortisation expense	22,930	-	138,918	-	161,848
Other non-cash expenses	-	-	158,876	-	158,876

(c) Notes to and forming part of the segment information

Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

5. Revenue

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
From continuing operations				
<i>Sales revenue</i>				
Sale of goods	5,707,544	4,318,530	-	-
Sale of services	743,055	540,032	-	-
	6,450,599	4,858,562	-	-
<i>Other revenue</i>				
Interest	418,417	666,365	454,146	1,150,365
	6,869,016	5,524,927	454,146	1,150,365

6. Other income

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Government grants (note (a))	466,192	196,393	-	-
Other	28,160	14,463	-	297,520
	494,352	210,856	-	297,520

(a) Government grants

Commercial Ready grants of \$466,192 (2007: \$196,393) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

7. Expenses

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Profit/(loss) before income tax includes the following specific expenses:				
Depreciation on plant and equipment	102,313	120,698	-	-
Amortisation of patents and trademarks	45,675	41,150	-	-
	147,988	161,848	-	-
Employee benefit expense	5,468,746	4,222,334	1,061,469	895,142
Rental expense relating to operating leases	160,356	195,830	-	-

8. Income tax expense

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Income tax expense				
The income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:				
Loss from continuing operations before income tax expense	(3,727,024)	(5,412,877)	(1,370,116)	(747,058)
Tax at the Australian tax rate of 30% (2007- 30%)	(1,118,107)	(1,623,862)	(411,035)	(224,117)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share based payment	59,158	64,934	59,158	64,934
Amortisation of intangibles	12,345	32,580	-	-
Sundry items	650	12,017	-	10,511
	(1,045,954)	(1,514,332)	(351,877)	(148,672)
Differences in overseas tax rates	(1,844)	(29,402)	-	-
Adjustments to prior period tax	63,686	-	63,686	-
Tax losses utilised	2,021	-	-	-
Transfer tax losses on consolidation	-	-	(668,159)	(4,703,577)
Benefit of tax losses not recognised	1,047,798	1,313,909	1,020,036	4,583,187
Income tax expense (benefit)	65,707	(229,825)	63,686	(269,062)

8. Income tax expense (continued)

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<hr/>				
(b) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised:	19,233,607	15,740,945	18,677,410	15,277,289
Potential tax benefit @ 30%	5,770,082	4,722,284	5,603,223	4,583,187

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(c) Tax consolidation legislation

AtCor Medical Holdings Limited and its wholly-owned Australian controlled entities are consolidated for income tax purposes. The accounting policy in relation to this legislation is set out in note 1(i).

As at the date of this report the entities in the tax consolidation group had not entered into a tax sharing agreement. No compensation has been received or paid for any current tax payable or deferred tax assets relating to tax losses assumed by the parent entity since implementation of the tax consolidation regime.

9. Current assets - Cash and cash equivalents

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank and in hand	1,271,030	1,421,017	128,789	622,005
Deposits at call	2,045,135	5,578,405	2,045,135	5,578,405
	3,316,165	6,999,422	2,173,924	6,200,410

(a) Cash at bank and on hand

These are a combination of non-interest bearing and interest bearing at floating interest rates between 1.00% and 5.50%.

(b) Deposits at call

The deposits are bearing a floating interest rate of 7.45% (2007 – 6.30%). These deposits have an average maturity of 30 days.

10. Current assets - Trade and other receivables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade receivables	1,698,412	1,163,082	229,990	297,520
Less: Provision for doubtful debts	(33,127)	(15,875)	-	-
	1,665,285	1,147,207	229,990	297,520
Other receivables	212,190	298,505	205,376	272,776
Less: Provision for doubtful debts	-	-	-	-
	1,877,475	1,445,712	435,366	570,296

(a) Impaired trade receivables

As at 30 June 2008 current trade receivables of the Group with a nominal value of \$33,127 (2007: \$15,875) were impaired. The amount of the provision was \$33,127 (2007: \$15,875). There were no impaired trade receivables for the parent in 2008 or 2007.

	Consolidated	
	2008	2007
	\$	\$
At 1 July	15,875	-
Provision for impairment recognised during the year	17,252	15,875
Receivables written off during the year as uncollectible	-	-
Unused amount reversed	-	-
	33,127	15,875

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

(b) Past due but not impaired

As of 30 June 2008, trade receivables of \$455,398 (2007: \$111,493) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2008	2007
	\$	\$
0 – 30 days	257,884	63,939
30 – 60 days	74,119	35,732
> 60 days	123,395	11,822
	455,398	111,493

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

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

(d) Fair value, foreign exchange and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group, the credit quality and foreign currency risk of the Group's trade receivables.

11. Current assets - Inventories

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Raw materials and stores - at cost	320,940	191,109	-	-
Finished goods at cost	80,217	191,923	-	-
	401,157	383,032	-	-

Inventories recognised as expense during the year ended 30 June 2008 amounted to \$1,286,070 (2007 - \$1,011,069). There were no write-downs of inventories to net realisable values during the year ended 30 June 2008 and 2007.

12. Current assets – Other

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Prepayments	59,842	177,521	3,848	5,037
Other	39,932	18,193	-	-
	99,774	195,714	3,848	5,037

13. Non-current assets - Receivables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loan to ex-director	891,990	-	891,990	-
Loans due from related parties	-	-	11,544,269	7,993,340
Loans to key management personnel	791,843	1,828,396	791,843	1,828,396
	1,683,833	1,828,396	13,228,102	9,821,736

Further information relating to loans to related parties and key management personnel is set out in note 27 and 23 respectively.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

(b) Fair values

The carrying amount of non-current receivables is assumed to approximate their fair value. The receivables bear interest at 9.0% (2007 – 8.05%)

(c) Risk exposures

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

14. Non-current assets - Other financial assets

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Shares in subsidiaries (note 28)	-	-	20,132,000	20,132,000

The above represents the investment in AtCor Medical Pty Ltd, which has been accounted for as a reverse acquisition in the consolidated financial statements.

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

Consolidated	Manufacturing plant and equipment	Furniture, fittings and equipment	Total
	\$	\$	\$
At 1 July 2006			
Cost	14,253	351,589	365,842
Accumulated depreciation	(10,868)	(214,940)	(225,808)
Net book amount	3,385	136,649	140,034
Year ended 30 June 2007			
Opening net book amount	3,385	136,649	140,034
Additions	137,082	127,862	264,944
Depreciation charge	(36,723)	(83,975)	(120,698)
Closing net book amount	103,744	180,536	284,280
At 30 June 2007			
Cost	151,335	479,451	630,786
Accumulated depreciation	(47,591)	(298,915)	(346,506)
Net book amount	103,744	180,536	284,280
Year ended 30 June 2008			
Opening net book amount	103,744	180,536	284,280
Additions	7,759	160,440	168,199
Depreciation charge	(39,875)	(62,438)	(102,313)
Closing net book amount	71,628	278,538	350,166
At 30 June 2008			
Cost	159,094	639,891	798,985
Accumulated depreciation	(87,466)	(361,353)	(448,819)
Net book amount	71,628	278,538	350,166

16. Non-current assets - Intangible assets

Consolidated	Development costs*	Patents, trademarks and other rights	Total
	\$	\$	\$
At 1 July 2006			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	-	(67,449)	(67,449)
Net book amount	<u>135,713</u>	<u>173,461</u>	<u>309,174</u>
Year ended 30 June 2007			
Opening net book amount	135,713	173,461	309,174
Additions	-	-	-
Amortisation charge **	(22,619)	(18,532)	(41,151)
Closing net book amount	<u>113,094</u>	<u>154,929</u>	<u>268,023</u>
At 30 June 2007			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(22,619)	(85,981)	(108,600)
Net book amount	<u>113,094</u>	<u>154,929</u>	<u>268,023</u>
Year ended 30 June 2008			
Opening net book amount	113,094	154,929	268,023
Additions	-	-	-
Amortisation charge **	(27,143)	(18,532)	(45,675)
Closing net book amount	<u>85,951</u>	<u>136,397</u>	<u>222,348</u>
At 30 June 2008			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(49,762)	(104,513)	(154,275)
Net book amount	<u>85,951</u>	<u>136,397</u>	<u>222,348</u>

* Capitalised development costs represent costs paid to an external party for intellectual property associated with the development of new sensor technologies. These development costs are expected to have a useful life of up to 10 years.

** Amortisation of \$ \$45,675 (2007: 41,151) is included in depreciation and amortisation expense in the income statement.

17. Current liabilities – Trade and other payables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables	817,113	807,814	1,361,988	998,448
Other payables	1,135,700	1,176,881	593,813	476,983
	<u>1,952,813</u>	<u>1,984,695</u>	<u>1,955,801</u>	<u>1,475,431</u>

18. Current liabilities - Provisions

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current employee benefits	19,237	19,237	-	-

19. Non-current liabilities – Provisions

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Employee benefits	<u>17,371</u>	<u>18,175</u>	-	-

20. Contributed equity

	Parent entity		Parent entity	
	2008	2007	2008	2007
	Shares	Shares	\$	\$
(a) Share capital				
Fully paid ordinary shares	<u>100,000,000</u>	<u>100,000,000</u>	<u>35,438,901</u>	<u>35,438,901</u>

(b) Movements in ordinary share capital:

There are no movements in share capital during the year ending 30 June 2008 and 2007.

(c) Ordinary shares

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

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

(d) Employee Share Option Plan

Information relating to the AtCor Medical Holdings Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 33.

(e) Reconciliation of parent entity and consolidated contributed equity

The consolidated equity for the group at 30 June 2008 includes the following items:

	\$
Equity of AtCor Medical Pty Ltd at the date acquisition	13,674,710
Share placement	15,000,000
Exercise of options	2,060,092
Transaction costs arising from share issue	<u>(1,753,191)</u>
Total	<u>28,981,611</u>

The difference between the contributed equity of the parent entity and that of the consolidated equity is a result of accounting for the reverse acquisition. The consolidated entity includes the cost of AtCor Medical Holdings Limited and AtCor Medical Pty Limited at original cost. AtCor Medical Holdings Limited is deemed to acquire AtCor Medical Pty Ltd and the \$20,132,000 is shown at fair value in the consolidated balance sheet.

From the perspective of the parent entity, AtCor Medical Holdings Limited has acquired all the shares in AtCor Medical Pty Limited as the legal parent. This transaction was accounted for at the cost of the transaction per the share sale agreement of A\$13,674,710.

21. Reserves and retained profits

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Reserves				
Share-based payments reserve	413,640	216,447	413,640	216,447
Foreign currency translation reserve	174,563	-	-	-
	588,203	216,447	413,640	216,447
Movements:				
<i>Share-based payments reserve</i>				
Balance 1 July	216,447	57,571	216,447	57,571
Option expense	197,193	158,876	197,193	158,876
Balance 30 June	413,640	216,447	413,640	216,447
<i>Foreign currency translation reserve</i>				
Balance 1 July	-	-	-	-
Currency translation differences arising through the year	174,563	-	-	-
Balance 30 June	174,563	-	-	-

(b) Retained profits/(accumulated losses)

Movements in retained profits/(accumulated losses) were as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance 1 July	(19,815,586)	(14,632,533)	(401,300)	76,696
Net loss for the year	(3,792,731)	(5,183,053)	(1,433,802)	(477,996)
Balance 30 June	(23,608,317)	(19,815,586)	(1,835,102)	(401,300)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

22. Dividends

No dividends were paid or declared since 30 June 2008 and the directors do not recommend the payment of a dividend.

23. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	1,191,948	1,421,892	847,352	1,111,996
Post-employment benefits	29,786	53,408	29,786	53,408
Share-based payments	106,861	143,949	82,262	124,830
	1,298,809	1,619,249	959,400	1,290,234

The company has taken advantage of the relief provided by Corporations Regulations and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in the remuneration report section of the Directors' Report.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report section of the Directors' Report.

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of AtCor Medical Holdings Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2008	Balance at the start of the year	Granted during the year as compensa tion	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisabl e at the end of the year
Name						
Directors of AtCor Medical Holdings Ltd						
D O'Dwyer	-	-	-	-	-	-
D R Ross	2,000,000	1,000,000	-	-	3,000,000	1,333,334
M O'Rourke	-	-	-	-	-	-
P Jenkins	-	-	-	-	-	-
L McIntyre	-	-	-	-	-	-
A R Harricks (retired 14 Nov 2007)	-	-	-	-	-	-
Other key management personnel of the Group						
P Manley	500,000	200,000	-	-	700,000	333,334
D Kurschinski	575,000	600,000	-	-	1,175,000	191,667

23. Key management personnel disclosures (continued)

2007	Balance at the start of the year	Granted during the year as compensa tion	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisabl e at the end of the
Name						

year

Directors of AtCor Medical Holdings Ltd

D O'Dwyer	-	-	-	-	-	-
D R Ross	2,000,000	-	-	-	2,000,000	666,667
M O'Rourke	-	-	-	-	-	-
P Jenkins	-	-	-	-	-	-
L McIntyre	-	-	-	-	-	-
A R Harricks	-	-	-	-	-	-

Other key management personnel of the Group

P Manley	500,000	-	-	-	500,000	166,667
D Kurschinski	575,000	-	-	-	575,000	-

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of AtCor Medical Holdings Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

2008	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer	965,012	-	975,000	1,940,012
D R Ross	292,000	-	700,000	992,000
M O'Rourke	8,506,946	-	125,000	8,631,946
P Jenkins	893,766	-	-	893,766
L McIntyre	-	-	250,000	250,000
A R Harricks (retired 14 Nov 2007)	2,168,775	-	-	2,168,775
Other key management personnel of the Group				
Ordinary shares				
P Manley	-	-	100,000	100,000
D Kurschinski	250,254	-	99,850	350,104

23. Key management personnel disclosures (continued)

2007	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer	965,012	-	-	965,012
D R Ross	-	-	292,000	292,000
M O'Rourke	8,506,946	-	-	8,506,946
P Jenkins	893,766	-	-	893,766
L McIntyre	-	-	-	-
A R Harricks (retired 14 Nov 2007)	2,168,775	-	-	2,168,775
Other key management personnel of the Group				
Ordinary shares				
P Manley	-	-	-	-
D Kurschinski	250,254	-	-	250,254

Details of loans made to directors of AtCor Medical Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

(i) *Aggregates for key management personnel*

Group	Balance at the start of the year \$	Repayments during the year \$	Interest paid and payable for the year \$	Other* \$	Balance at the end of the year \$	Number in Group at the end of the year
2008	1,828,396	(300,000)	155,437	(891,990)	791,843	4
2007	1,696,864	-	131,532	-	1,828,396	5

(ii) *Individuals with loans above \$100,000 during the financial year*

2008	Balance at the start of the year \$	Repayment during the year \$	Interest paid and payable for the year \$	Other	Balance at the end of the year \$	Highest indebtedness during the year \$
Name						
D O'Dwyer	151,232	(100,000)	13,626	-	64,858	164,858
P Jenkins	189,040	-	16,324	-	205,364	205,364
M O'Rourke	567,006	(200,000)	45,942	-	412,948	599,961
D Kurschinski	100,094	-	8,578	-	108,672	108,672

All loans to key management personnel have been given to assist the personnel to exercise options immediately prior to the Initial Public Offering. The loans are for periods of 4 years repayable at the conclusion of the loan period, at interest rates determined with reference to Australian Tax Office (Tax Determination 2008/7 and 2007/10). For the current year these rates were 8.30% per annum increasing to 9.00% on 1 April 2008. These are full recourse loans secured by the purchased shares.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to key management personnel.

* R Harricks retired as a director during the year and did not seek reappointment. As such this loan balance has been reclassified.

23. Key management personnel disclosures (continued)

(f) Other transactions with key management personnel

- (i) The Group is currently party to an exclusive license agreement with Eastern Medical Testing Service Inc (EMTS Inc) over a US patent (US Patent number 5,265,011). EMTS Inc is a company controlled by an associate of a director, M O'Rourke. The license agreement contains a royalty scheme under which payments are calculated by reference to the amount of net sales revenue made by the Group from the sale of products incorporating the US Patent.
- (ii) A director, M O'Rourke, provides consulting services to the Group as a medical advisor, for which he receives a monthly retainer. This agreement is based on normal commercial terms and conditions. The amount paid for the year ended 30 June 2008 is \$152,145 (2007: \$237,145)

Aggregate amounts of each of the above types of other transactions with key management personnel of AtCor Medical Holdings Limited:

	2008	2007
	\$	\$
Amounts recognised as expense		
Royalty	112,390	127,961
Consulting fees	152,145	237,145
	264,535	365,106

Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions:

	2008	2007
	\$	\$
Current liabilities	28,790	62,540

24. Remuneration of auditors

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	97,425	101,550	97,425	101,550
<i>Other assurance services</i>				
PricewaterhouseCoopers Australian firm				
Audit of Commercial Ready grant	8,450	-	-	-
Total remuneration for assurance services	105,875	101,550	97,425	101,550

25. Contingencies

(a) Contingent liabilities

No contingent liabilities exist at this time.

(b) Contingent assets

No contingent assets exist at this time.

26. Commitments

(a) Lease commitments : Group as lessee

	Consolidated		Parent entity	
	2008	2007	2008	2008
	\$	\$	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	72,462	65,000	-	-
Later than one year but not later than five years	121,796	-	-	-
	194,258	65,000	-	-

27. Related party transactions

(a) Parent entity

The parent entity within the Group is AtCor Medical Holdings Limited. The ultimate Australian parent entity is AtCor Medical Holdings Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 28.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 23 and in the remuneration report within the Directors' Report.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Sales of goods and services</i>				
Sale of services to subsidiaries	-	-	-	297,520
<i>Purchases of goods and services</i>				
Purchases of services from subsidiaries	152,145	144,895	544,156	895,142

(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Current Receivables (sales of services)</i>				
Subsidiaries	-	-	233,030	297,520
<i>Current payables (purchases of services)</i>				
Subsidiaries	-	-	1,326,317	895,142

(f) Loans to/from related parties

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	7,993,340	2,518,300
Loans advanced	-	-	3,793,708	4,969,607
Loan repayments received	-	-	(292,636)	-
Interest charged	-	-	49,857	505,433
Interest received	-	-	-	-
End of year	-	-	11,544,269	7,993,340

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(h) Terms and conditions

Loans were made with no fixed terms for repayment. Interest is payable on the loans to foreign subsidiaries applying the Australian official cash rate plus 0.5%.

Outstanding balances are unsecured and are repayable in cash.

28. Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding **	Equity holding **
			2008	2007
			%	%
AtCor Medical Pty Limited *	Australia	Ordinary	100%	100%
PWV Medical Pty Ltd ***	Australia	Ordinary	100%	100%
AtCor Medical Inc.	USA	Ordinary	100%	100%
AtCor Medical UK Limited	United Kingdom	Ordinary	100%	100%

* This subsidiary has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

** The proportion of ownership interest is equal to the proportion of voting power held.

*** Statutory audit not required under relevant local legislation. Deregistered on 29 May 2008

29. Economic dependency

The Group depends upon a single supplier who is a specialist manufacturer for supply of its tonometer (high-fidelity sensor), a key component in its SphygmoCor device.

30. Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2008 that has significantly affected or may affect the consolidated entity's operations, the result of those operations, or the consolidated entity's state of affairs in future financial years.

31. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss for the year	(3,792,731)	(5,183,053)	(1,433,802)	(477,996)
Depreciation and amortisation	147,988	161,849	-	-
Non-cash employee benefits expense - share-based payments	197,193	158,876	197,193	158,876
Exchange difference	174,563	-	-	-
Change in operating assets and liabilities:				
Decrease/(Increase) in trade and other receivables	(431,763)	(64,352)	134,930	(456,681)
Decrease/(Increase) in inventories	(18,125)	(89,020)	-	-
Decrease/(Increase) decrease in other operating assets	(12,731)	(55,768)	(139,958)	(632,526)
(Decrease)/Increase in trade and other payables	(42,063)	596,700	480,370	1,377,795
(Decrease)/Increase in other provisions	(804)	(13,566)	-	-
Net cash outflow from operating activities	<u>(3,778,473)</u>	<u>(4,488,334)</u>	<u>(761,267)</u>	<u>(30,532)</u>

32. Earnings per share

	Consolidated	
	2008	2007
	Cents	Cents
(a) Earnings per share		
Basic earnings per share	(3.8)	(5.2)
Diluted earnings per share	<u>(3.8)</u>	<u>(5.2)</u>
(b) Reconciliations of earnings used in calculating earnings per share		
<i>Basic earnings per share</i>		
(Loss) from continuing operations	<u>(3,792,731)</u>	<u>(5,183,053)</u>
<i>Diluted earnings per share</i>		
(Loss) from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<u>(3,792,731)</u>	<u>(5,183,053)</u>
(d) Weighted average number of shares used as the denominator		
	Consolidated	
	2008	2007
	Number	Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<u>100,000,000</u>	100,000,000
Adjustments for calculation of diluted earnings per share:		
Options	-	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	<u>100,000,000</u>	100,000,000

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the AtCor Medical Holdings Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 33.

No options granted are included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2008.

33. Share-based payments

(a) Employee Share Option Plan (ESOP)

The AtCor Medical Holdings Employee Option Plan was approved by shareholders at the 2005 annual general meeting and amendments were approved at the 2006 annual general meeting. All staff are eligible to participate in the plan at the discretion of the directors (including executive directors) following recommendations from the remuneration committee, a sub-committee of the AtCor Medical Holdings Limited Board of Directors.

Options are granted under the plan for no consideration. Options are granted for a 5 year period, and 33.3% of each new tranche vests and is exercisable after each of the first 3 anniversaries of the date of grant.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into 1 ordinary share.

The exercise price of options is no less than the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the 5 trading days immediately before the options are granted.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity – 2008								
9 Nov 2005	9 Nov 2010	\$0.50	500,000	-	-	-	500,000	333,334
8 May 2006	8 May 2011	\$0.50	2,000,000	-	-	-	2,000,000	1,333,334
22 Sep 2006	22 Sep 2011	\$0.50	1,790,000	-	-	-	1,790,000	596,670
14 Dec 2006	14 Dec 2011	\$0.50	500,000	-	-	-	500,000	166,667
22 Aug 2007	22 Aug 2012	\$0.15	-	3,025,000	-	(350,000)	2,675,000	-
14 Nov 2007	14 Nov 2012	\$0.15	-	1,000,000	-	-	1,000,000	-
Total			4,790,000	4,025,000	-	(350,000)	8,465,000	2,430,005
Weighted average exercise price			\$0.50	\$0.15	-	\$0.15	\$0.31	
Consolidated and parent entity – 2007								
9 Nov 2005	9 Nov 2010	\$0.50	500,000	-	-	-	500,000	166,667
8 May 2006	8 May 2011	\$0.50	2,000,000	-	-	-	2,000,000	666,667
22 Sep 2006	31 Dec 2005	\$0.50	-	1,890,000	-	(100,000)	1,790,000	-
14 Dec 2006	31 Dec 2005	\$0.50	-	500,000	-	-	500,000	-
Total			2,500,000	2,390,000	-	(100,000)	4,790,000	833,334
Weighted average exercise price			\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	

33. Share-based payments (continued)

No options were forfeited during the periods covered by the above tables and no options were exercised.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.3 years (2007 – 4.0 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 2008 was 6.4 cents per option (2007 – 3.8 cents). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration, have a five year life, and 33.3% of each tranche vests and is exercisable after each of the first three anniversaries of the date of grant
- (b) exercise price: \$0.15 (2007 - \$0.50)
- (c) expiry date: 5 years from grant date (2007 –5 years from grant date)
- (d) share price at grant date: \$0.13 (2007 - \$0.17)
- (e) expected price volatility of the company's shares: 60% (2007 - 60%)
- (f) expected dividend yield: nil% (2007 - nil%)
- (g) risk-free interest rate: 6.50% (2006 - 5.75%).

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Options issued under employee option plan	197,193	158,876	197,193	158,876

In the directors' opinion:

- (a) the financial statements and notes set out on pages 28 to 60 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 13 to 21 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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



D O'Dwyer - Director

Sydney
21 August 2008

**Independent auditor's report to the members of
AtCor Medical Holdings Limited**

**PricewaterhouseCoopers
ABN 52 780 433 757**

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Report on the financial report

We have audited the accompanying financial report of AtCor Medical Holdings Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both AtCor Medical Holdings Limited and the AtCor Medical Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of AtCor Medical Holdings Limited is in accordance with the *Corporation Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a)

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 21 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of AtCor Medical Holdings Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of AtCor Medical Holdings Limited for the financial year ended 30 June 2008 included on the AtCor Medical Holdings Limited web site. The company's directors are responsible for the integrity of the AtCor Medical Holdings Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration reports to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



Mark Dow
Partner

Sydney
21 August 2008