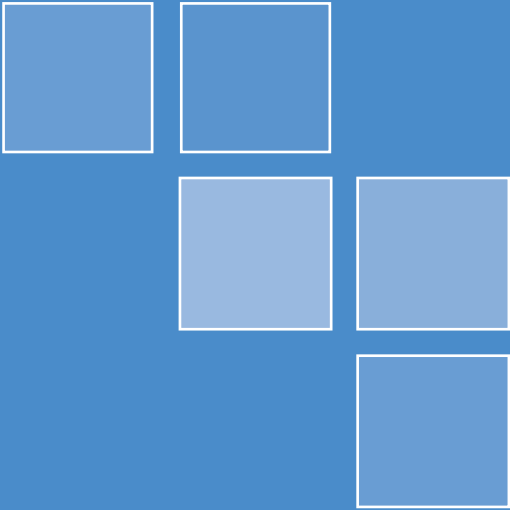


ANNUAL REPORT 2004



USCOM LTD
Ultrasonic Cardiac Output Monitors

ABN 35 091 028 090

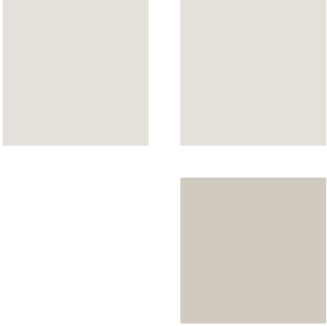


Our Mission:

To establish USCOM as a standard
tool of medical practice



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“This is the most exciting medical innovation I have come across in the past 20 years.”

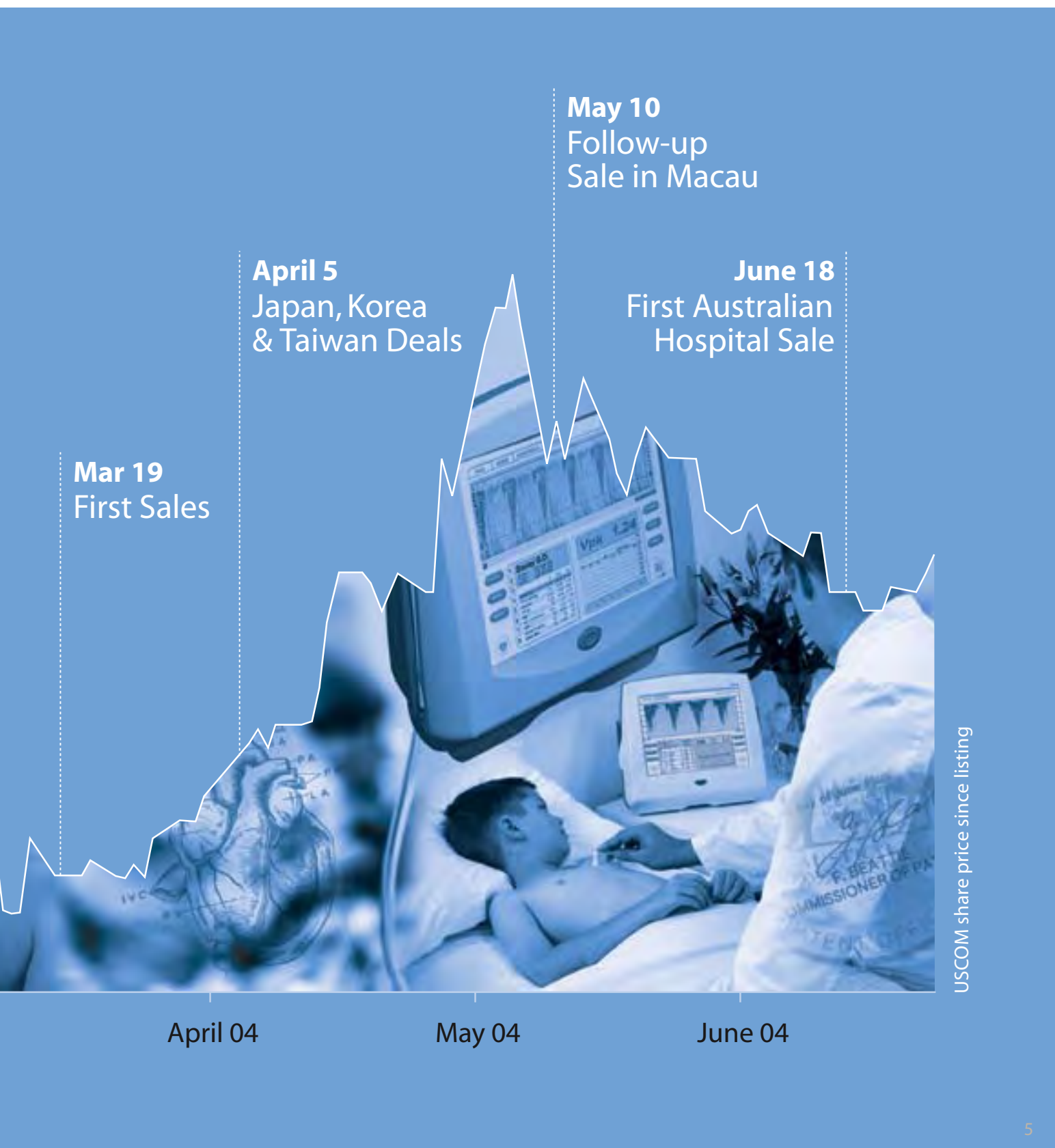
Dr Michael Sinclair, Director of Intensive Care, Dubbo Base Hospital, NSW

HIGHLIGHTS



Financial Highlights

Revenue from sales	\$384,390
Total revenue	\$948,342
Total costs	\$2,351,762
Profit (Loss) after tax	(\$1,251,684)
Net operating cash flow	(\$1,467,103)
Cash in hand at 30 June	\$13,324,934





Rob Phillips, Chairman

Dear Fellow Shareholder,

It is with great pleasure the Directors of USCOM present the company's first annual report since listing on the Australian Stock Exchange.

The 12 month period to June 30, 2004 has delivered important progress in line with the company's mission to establish its non-invasive heart technology as a standard tool of medical practice. Our goal is to provide non-invasive solutions for improved patient care at lower cost and reduced risk.

USCOM is a newly listed company with big ambitions, marketing a unique product with proven demand and a huge global market.

These are still early days for USCOM. However just six months after our ASX listing, the company has achieved significant milestones, from proving its science to establishing the core of a global marketing network and securing initial hospital sales in Australia, Asia and Europe.

THE ASX LISTING

The highlight of the year from a structural point of view was the company's successful ASX listing on December 10, 2003. With an offer price of \$2.00 and the offer fully subscribed, USCOM shares opened at \$2.50 and have since traded in a range between \$2.11 and \$3.90. The company is committed to the prudent management of the \$16 million raised at the listing.

MARKETING

The purpose of the listing was to raise capital for USCOM's worldwide marketing roll-out. The marketing effort began in earnest in January 2004 with the company on show at three important medical industry conferences in the Middle East, Asia and Europe. In the last year since the launch of the marketing campaign, USCOM has been represented at 12 international medical conferences and exhibitions. In order to advance our worldwide sales effort, the company has secured distribution partnerships throughout Western Europe, Asia and Australasia. In addition, USCOM has recruited three Senior Marketing Executives, each with a proven international track record in the sale of hi-tech medical equipment.

REGULATORY APPROVALS

We are pleased to report that we have secured regulatory approvals for the Australian, Chinese and European markets, clearing the way for active marketing activities in each of these important regions. In the year ahead, the company's regulatory and marketing focus will shift to Taiwan, Korea, Japan and the United States where USCOM intends to commercially launch its products during calendar 2005.

INITIAL SALES

At the close of the 2004 financial year, we achieved a total of 34 device sales in 11 different countries. The company booked its first revenue from sales in March 2004 with total revenue from sales to June 30, 2004 of \$384,390. While this represents a modest beginning, it is a significant achievement given the international marketing effort had been underway for less than six months. We are encouraged by the response of potential customers and look forward to our first full year of sales activity.

COST & CASH MANAGEMENT

On the cost side, the company's financial results clearly illustrate our commitment to tight cash control, with relatively low fixed costs and a determination to outsource all but essential cost items. At the end of June, USCOM had cash resources of \$13,324,934, a clear demonstration of our prudent resources management.

THE SCIENCE OF USCOM

It has also been an eventful year in demonstrating the scientific validity of USCOM. Scientific papers have been presented at international conferences across a wide range of clinical applications. A total of nine new studies have been presented, proving the accuracy and usefulness of the USCOM technology. The company looks forward to the publication of many more studies in the second half of 2004. In addition, USCOM has formalised an international network of luminary research collaborators in Asia, Europe and the United States, supporting the science and clinical adoption of USCOM.



“The response from leading clinicians has exceeded even our own expectations.”

RESEARCH & DEVELOPMENT

USCOM remains committed to product development and innovation. The company's first product, the USCOM 1A Cardiac Output Monitor has undergone two software upgrades during the year with further improvements in train. In addition, we are committed to continued investment in Research & Development leading to the release of future products. We have recruited three technical staff to further strengthen our Research & Development team.

THE BOARD, MANAGEMENT & STAFF

During the course of the year, company Directors held seven board meetings resulting in management delivering 11 detailed written updates. In order to extend the Directors' oversight of the company's operations, an Audit & Risk Management Committee was appointed in March 2004, with three Committee meetings held to date.

Staffing levels at USCOM have increased by eight to a total of 16. Four of these new employees are focused on marketing, the primary use of proceeds as specified at the time of the ASX listing. We are extremely proud of the calibre of our people, with a determined focus on quality rather than quantity.

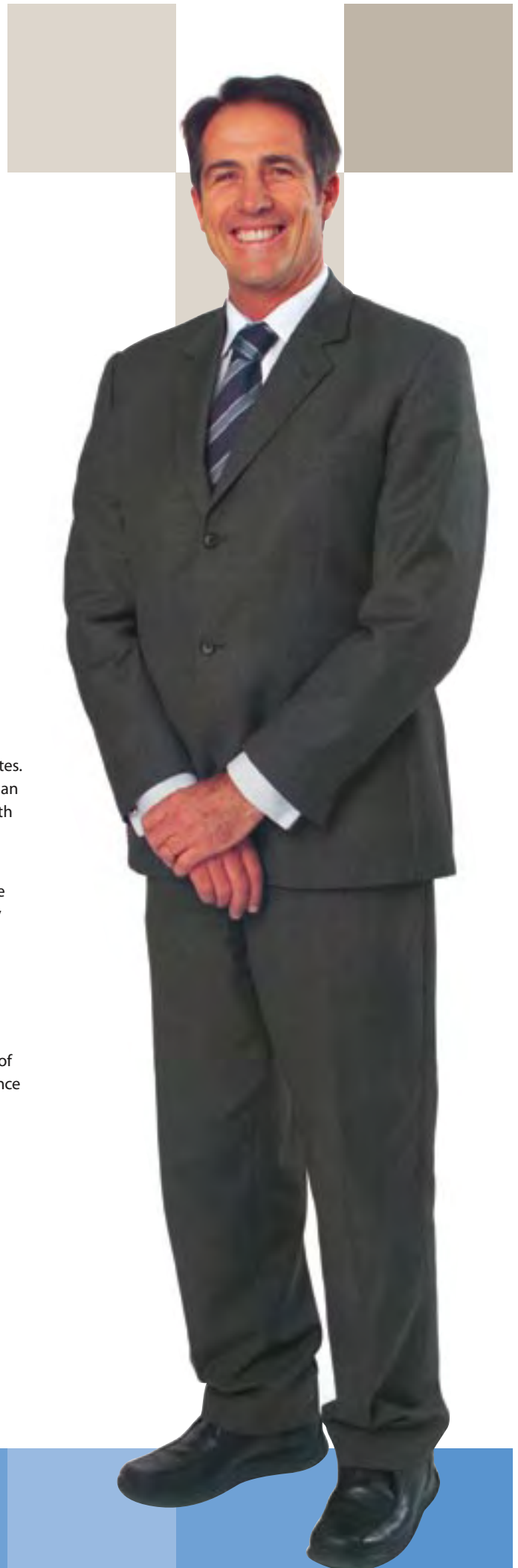
CORPORATE GOVERNANCE

We are also pleased to present in this report USCOM's comprehensive policies on Corporate Governance, modelled on the ten core principles of good corporate governance as published by the ASX Corporate Governance Council. The company's corporate governance policies have been presented to all staff and are now posted prominently on the USCOM website. We are committed to a culture of transparency, integrity and excellence in all of our activities.

We sincerely thank all our shareholders and our dedicated staff for their support throughout this exciting year, and look forward to an equally challenging and productive year ahead.



Rob Phillips, Chairman



CEO Report - Review of Operations

USCOM Limited closes its first financial year as a listed company having made important progress in regulatory affairs, scientific validation, staff recruitment, product development and marketing.

While we are very much at the early stage of our sales effort, we are encouraged by the initial response from the market and optimistic about our future sales prospects.

MARKETING

In January 2004, the company launched its worldwide marketing effort.

This was the starting point for USCOM's mission to establish its technology as a standard tool of medical practice.

An important part of our international activity is participation in major medical conferences, presenting scientific papers and reaching many hundreds of potential customers through exhibitions. In the first six months of our campaign, the company was represented at 12 international events. We will be exhibiting later this year at events in Australia, Asia, Europe and the US.

Another priority is the recruitment of high quality people. The company made four Australia-based key appointments during the year to provide additional resources to the global sales campaign.

Danika Southwell Marketing Executive based in Sydney, is a former cardiac applications specialist with General Electric Medical Systems, providing development and support for the sale of high-end cardiac ultrasound equipment to hospitals in Australia, Europe and the Middle East.

Bev Jacobson Marketing Executive based in Melbourne, was for 13 years an Account Manager, Clinical Applications Specialist and Market Development executive in cardiac ultrasound with Agilent Technologies and Hewlett-Packard's Imaging Systems Division, subsequently acquired by Philips Medical Systems.

Michelle Meurs Marketing Executive based in Brisbane, is a certified Cardiac Sonographer and Technician and worked for General Electric Medical Systems as a Cardiac Applications Specialist and a Cardiology Account Manager in GE's Ultrasound division.

Sally Powell Marketing Coordinator based in Sydney, is responsible for the development and distribution of all USCOM's marketing materials and communications.

SALES

We closed the financial year having completed a total of 34 device sales in 11 different countries with revenues from sales of \$384,390. This is in line with our expectations and represents an encouraging start to the sales process.

Cash flow from sales: USCOM announces a significant sale upon receipt of appropriate formal documentation, including a signed purchase order. Revenue is not recognized until the USCOM machine is shipped to the customer. Receipt of payment then follows, with payment terms ranging from 30 to 75 days.

THE MARKETS

USCOM manages a network of marketing and distribution partners, each with extensive local experience in the following regions:

1. Europe
2. North Asia
3. South Asia
4. South East Asia
5. The Middle East
6. Australasia



< CEO Gary Davey

From left to right >
Bev Jacobson
Michelle Meurs
Sally Powell
Danika Southwell

The Sales Cycle

USCOM is working hard in all of its target markets to accelerate the sales cycle. This process typically begins with presentations to key opinion leaders, being heads of departments or academic leaders. Prior to taking the USCOM machine into a hospital environment, the machine is usually subjected to safety tests by bioengineering personnel. We follow up with training and education sessions for clinicians and nursing staff. In some cases, a hospital may insist on its own clinical trial or technical evaluation. Having completed these steps, the clinical leadership of the hospital lodges a request for purchase with the hospital administration. The timing of completion varies according to the budgeting cycles of the hospital.

Sales by Territory >>>

China	14
Japan	7
S.E. Asia	4
Taiwan	2
Korea	2
UK	2
Australia	2
Total	34

Since June 30, further sales have been confirmed, taking cumulative orders to in excess of 40 units.

1. Europe

Europe is a high priority region for USCOM. In December 2003, the company secured the necessary regulatory approval for Europe. This enabled our European distribution partners to begin trials and presentations at key clinical sites. USCOM has appointed distribution partners covering France, Germany, the UK, Ireland, Spain, Portugal, Italy, Germany, Switzerland, Belgium and Austria.

In the **UK**, the company has been working with the Great Ormond Street Hospital in London, a world centre of excellence in the treatment of children and babies. The hospital is presenting the first of its research findings at an international Paediatrics conference in September. Such was the immediate demand for information about USCOM in the UK, our distribution partner, Beaver Medical plc, acquired an additional two USCOM machines for the purpose of demonstrating the technology to potential customers.

In **France**, USCOM has joined forces with Professor Didier Payen, to provide on-going research into the science and application of the USCOM technology. Professor Payen, head of Anaesthetics and Emergency Care at Lariboisiere Hospital in Paris is an internationally recognised expert in haemodynamics.

In **Germany**, USCOM is working closely with Dr Karsten Knobloch of Hannover University Hospital, where research has already been conducted proving the accuracy of USCOM when compared with the gold standard thermodilution catheter method. Dr Knobloch is now conducting trials with the USCOM device aboard ambulances and rescue helicopters for emergency retrieval .

2. North Asia

USCOM's North Asia region incorporates China, Taiwan, Japan and Korea and has proven to be our most active region to date. With 25 sales reported to June 30, our North Asia distribution partner, Pacific Medical Systems Limited has done an outstanding job of establishing these important first customer relationships for USCOM. The company secured the necessary regulatory approvals for **China** in January 2004, and within two months we were able to report our first China sales, including the installation of USCOM machines at two hospitals in Hangzhou. Another important sale was reported in April at a major hospital in Macau. Following a training visit by USCOM and Pacific Medical staff, the hospital ordered a second machine.



“There is no doubt this device will save lives, particularly in regional clinical practice.”

Dr Brendan Smith, Area Clinical Director of Anaesthesia,
Far West Area Health Service, Broken Hill

In June, we announced the sale of an USCOM machine to Dr Lester Critchley, Associate Professor at the Department of Anaesthesia and Intensive Care at the Chinese University and Prince of Wales Hospital. Dr Critchley is a recognised world authority on non-invasive haemodynamics and had been conducting research into the USCOM technology since early 2003. Dr Critchley presented the first findings of his research at the World Congress of Anaesthesiology in Paris in April 2004, in a paper titled: “Validation Of A New Ultrasonic Cardiac Output Monitor, The USCOM”.

Hong Kong is another site of important research into USCOM's role in the management of heart pacemakers. A study conducted at the University of Hong Kong by Professor C.P. Lau, a world authority on heart pacing, demonstrated a high degree of accuracy and efficiency for USCOM compared with traditional methods of optimising pacemaker settings. The study was presented at the North American Society of Pacing and Electrophysiology conference in San Francisco.

The company has appointed outstanding distribution partners for **Japan** and **Korea**. Although regulatory approvals in these two markets will not be finalised until early 2005, our partners have demonstrated their faith in our technology by purchasing a total of nine machines (seven for Japan and two for Korea) in anticipation of a busy marketing programme ahead.

In **Taiwan**, regulatory approvals are anticipated within the coming weeks. Our distribution partners have purchased two machines in advance and initial presentations to potential customers indicate this will be another extremely active market.

3. South Asia

Covering **India, Pakistan, Sri Lanka** and **Bangladesh**, the South Asia region, with a population base of more than one billion people, represents a major opportunity for USCOM. In association with our distribution partner, Coefficient Systems, we have appointed a full time representative based in Chennai to assist in the management of a network of sub-distributors across India.

In August, the company announced the sale of three units to distribution partners in India and a further three to a new distribution partner in Pakistan.

4. South East Asia

The company is off to a promising start across this wide and diverse region, with sales reported in **Singapore, Malaysia, Thailand** and the **Philippines**.

5. The Middle East

This is another region with extremely high potential. The company has attended medical equipment exhibitions and made key customer presentations with promising signs for future sales.

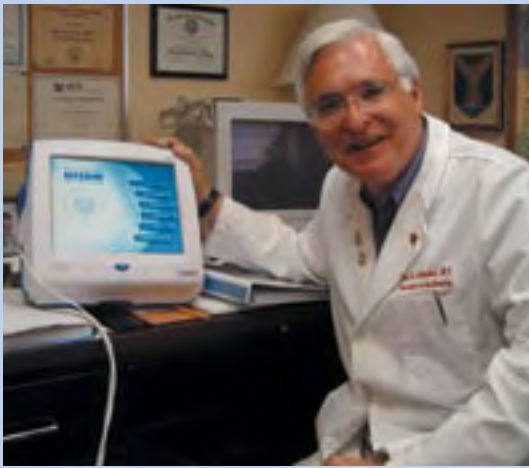
6. Australasia

In conjunction with our marketing partner, Coefficient Systems, USCOM has made its first inroads into the Australian medical market. Our first Australian hospital sale was announced in June 2004 with the delivery of an USCOM machine to the Far West Area Health Service at Broken Hill. This was a highly significant sale, clearly illustrating the value of USCOM in remote locations with limited resources in equipment and specialist clinicians. The USCOM machine is in use at Broken Hill Hospital across anaesthetics, intensive care and emergency care, providing state of the art medical care in a highly cost-efficient way. In March 2004, USCOM was also delighted to announce the sale of an USCOM machine to Professor Branko Celler of the Centre for Health Informatics at the University of New South Wales in Sydney. Professor Celler is one of Australia's most highly acclaimed leaders in biomedical engineering.

In August 2004, the company announced the delivery of an USCOM device to the Dubbo Base Hospital in New South Wales, where our technology is in use in emergency care, in surgery and in general wards. Commenting on the purchase, the Director of Intensive Care, Dr Michael Sinclair commented: “I am thrilled to be able to use the USCOM device. This is the most exciting medical innovation I have come across in the past 20 years. I can see the time when everyone will use one of these devices. This will become as important a device in general usage as the stethoscope.”

As part of our longer term ambitions, a specialist consultant has been appointed to assist the company in an application for a Medicare rebate number.

From left to right >
Aini Guan
Paul Butler
Sue-Ellen McCann
Jill Sly



USCOM has the potential to be a very important monitoring device, which can add a new dimension to the care of the patient with heart failure. We are looking forward to its US launch.

Dr Peter Lichtenthal, Associate Professor Cardiothoracic Anesthesia, University of Arizona Health Sciences Centre

7. North America

USCOM has taken a conservative approach to the launch of its products in the North American market and anticipates launching in the US during calendar 2005. Due to the complexity and significance of the market, we are conducting research into the most effective market entry options. The company has appointed a marketing consultant to assist in the development of this strategy.

USCOM is submitting its application for an FDA (Food and Drug Administration) 510K regulatory approval in the second half of calendar 2004 with a view to receiving approval in early 2005. The company is assisted in its FDA application by specialist consultants in Australia and the US. In the meantime, the company is in discussion with a number of recognised centres of excellence for collaborative research in intensive care, emergency care and paediatrics.

USCOM will be on show in October at three important medical conferences, with a focus on emergency care, anaesthetics and paediatrics.

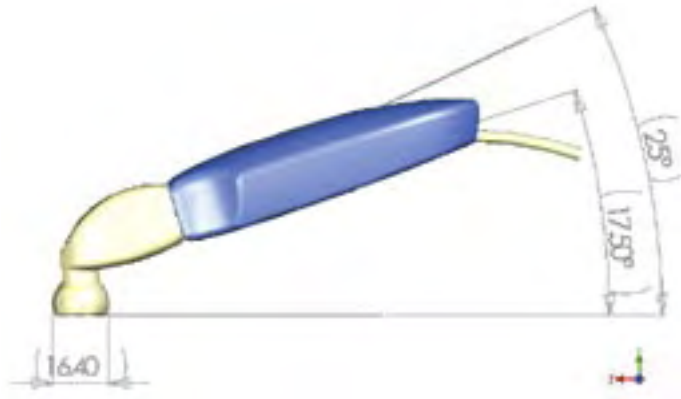
RECRUITMENT

USCOM now employs 16 people, including two part time staff and one contract software engineer. During the year staff numbers grew by eight.

This includes the four marketing staff mentioned above, three software engineering staff and the appointment of a Senior Accountant, Ms Aini Guan, who joined the company in July 2003. We remain committed to manageable growth in headcount, setting extremely high standards in the quality of our personnel and allowing our people to flourish in a non-bureaucratic work environment.



Pictured right >
The USCOM R&D
team continues the
advancement of
the USCOM system,
including innovative
new designs for
transducers



PRODUCT DEVELOPMENT

A high priority for USCOM is to keep our products at the cutting edge of technology and designed to fit our customers' needs.

The USCOM Research & Development program is designed to:

- (a) provide a continuous process of product improvement to the existing products
- (b) develop new products

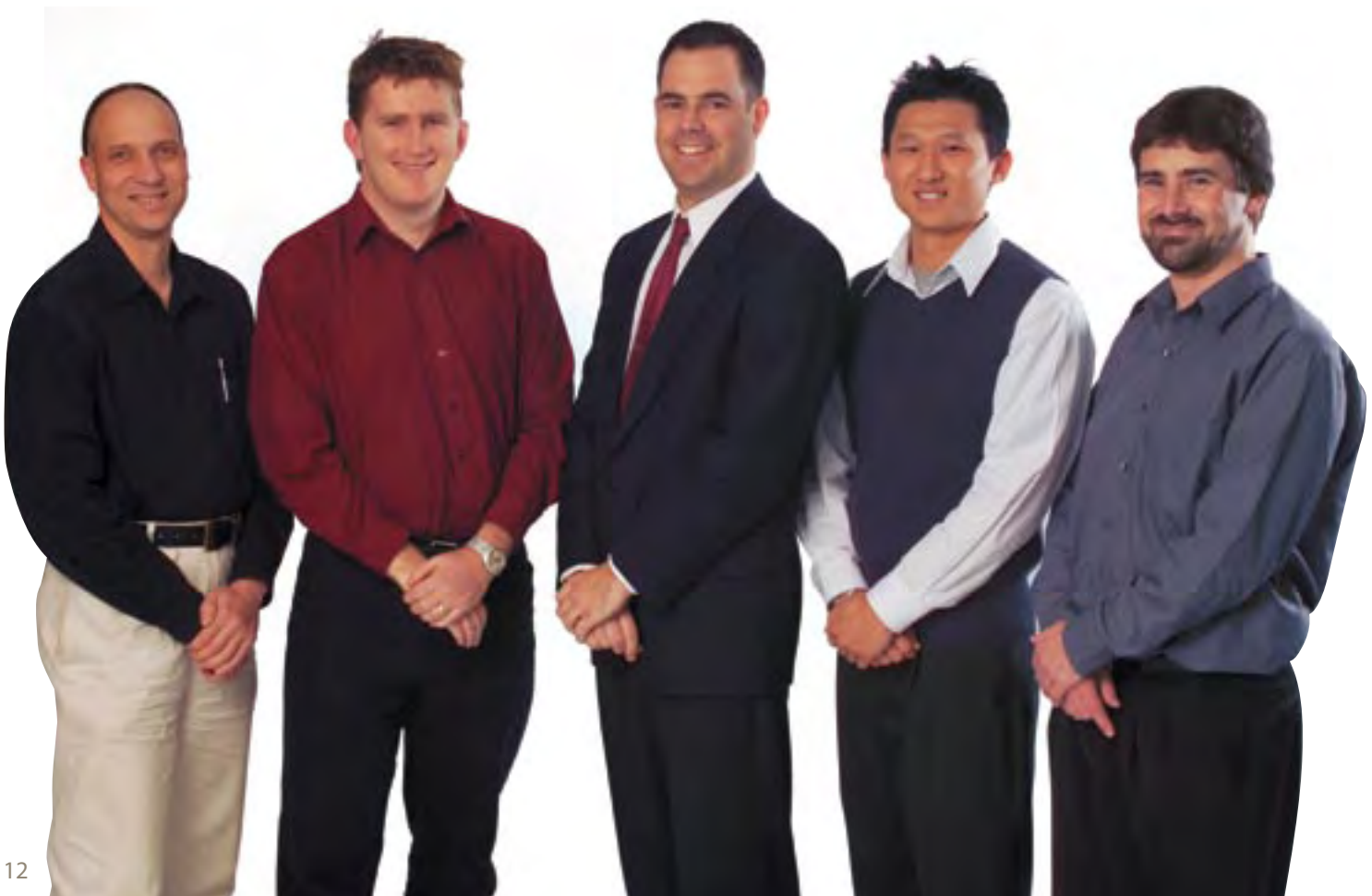
USCOM's Research & Development Team, led by Mr Nick Schicht has achieved outstanding results against both of these objectives.

The company's first and priority product, the USCOM 1A Cardiac Output Monitor has undergone two software upgrades during the year, providing enhanced signal display and several new user functions.

SCIENTIFIC VALIDATION

A key element of USCOM's mission is the presentation of scientific evidence proving the accuracy, reliability and usefulness of the company's technology across many clinical applications.

During the course of the year, we reported the publication of nine new validation studies, each presented at a recognised international conference. The studies covered a diverse range of applications, including anaesthetics, intensive care, emergency care, ventilated patients and heart pacemaker management. A summary of each of these papers can be found in the Validation section of this report .



FIRST COMPANY CONFERENCE

The company staged its first annual meeting **USCOMONE** in Coffs Harbour in July 2004. With over 40 delegates from Australia, Asia and Europe, the meeting provided staff and marketing partners a detailed review of the science and clinical applications of USCOM as well as setting in place the company's international sales and marketing strategy.



REGULATORY AFFAIRS

USCOM has completed all the necessary regulatory procedures for the commercial release of the USCOM 1A monitor for Australia, Europe and China, as well as a number of smaller markets in Asia.

The company is seeking a 510K Pre-Market Notification through the US Food and Drug Administration (FDA) with a view to a commercial release in the United States in 2005.

The company received formal notification of its CE Mark Certification for Europe in December 2003 and regulatory approval for China through the State Food and Drug Administration in January 2004.

Following is a summary of the company's regulatory progress:

Territory	Certification	Status
Australia	TGA Listing	Received
All Markets	Technical and Safety	Received
Europe	CE Listing	Received
China	State Food & Drug Administration	Received
US	FDA 510K	To be filed in 2004
Japan	Ministry of Health	To be filed in 2004

“The availability of a reliable non invasive measure of cardiac output is of enormous significance to many areas of research in cardiovascular physiology, human performance assessment and age related changes in the cardiovascular system.

We are excited at this opportunity to explore the full potential of the USCOM monitor in an experimental research laboratory setting.”

Professor Branko Celler, University of NSW

An introduction to USCOM



USCOM is a non-invasive tool for accurately measuring and recording changes in the haemodynamic status of a patient.

It is the most accurate clinical method of quantifying cardiac output.

In some respects, cardiac output has been the holy grail of modern medicine. The current industry “gold standard” is the Swan Ganz Pulmonary Artery Catheter, which is now being widely challenged on the grounds of its accuracy and safety. Non-invasive haemodynamics has been identified in surveys as the medical community’s number one un-met need. Health care professionals worldwide are seeking evidence-based and cost-efficient solutions at a time of ever tightening budgets.

USCOM has been created to meet that need, providing improved care, at reduced cost and reduced risk.

Unlike other methods, USCOM is completely non-invasive, accurate and easy to use. The operator places the USCOM

probe on the skin either on the chest, to access the pulmonary valve, or at the throat to access the aorta. USCOM works like a high-powered, quantitative stethoscope. The patient does not need to be sedated and can easily be examined in a clinician’s office.

The USCOM machine is highly portable, weighing just 4 kilograms and is designed to be operated by nurses for subsequent review by clinicians. With a 20 Gigabyte hard drive, the machine can store tens-of-thousands of patient files.

USCOM uses the well-validated science of Continuous Wave Doppler Ultrasound to accurately measure the flow of blood through the cardiac valves. Using patented algorithms, the machine converts this flow information into accurate and reliable data across nine different parameters of cardiac function:

Vpk	Peak Flow velocity
Pmn	Mean Pressure gradient
Vti	Velocity time integral
HR	Heart Rate
ET	Ejection Time
MD	Minute Distance
SV	Stroke Volume
CO	Cardiac Output (in Litres-per-minute)
CI	Cardiac Index

This information is displayed on the USCOM touch-sensitive screen in trend graph form, highlighting any changes in cardiac function in real time. USCOM has application across a wide range of sectors, including Critical Care, Emergency Care, Anaesthetics and Paediatrics. The accuracy of USCOM has been proven in independent comparative studies against laboratory based models, flow probes and the thermodilution “gold standard”.

USCOM is approved for sale in Australia, China and Europe. The company is submitting its FDA 510K application in 2004.

“USCOM is a non-invasive tool for accurately measuring and recording changes in the haemodynamic status of a patient.”



July - September 2003

July 2003 USCOM awarded Powerhouse Design Award
August 2003 Marketing deals for four European markets
September 2003 North Asia distribution partner appointed
September 2003 USCOM presents at World Congress of Cardiology
September 2003 USCOM proven in drug dosage study

October 2003

USCOM at World Congress of Echo
US agent for FDA filing signed
USCOM proven in precision lab test
USCOM becomes a public company

December 2003

USCOM wins at Asian Innovation Awards
Australian Stock Exchange listing
USCOM proven in German heart study
European regulatory approval (CE Mark)

MILESTONES

January - March 2004

January 2004	USCOM presents patented flow method
January 2004	China regulatory approval
February 2004	USCOM proven in study of ventilated patients
March 2004	University of NSW buys USCOM for heart research role
March 2004	First sales in China reported



April 2004

Marketing deals for Taiwan, Korea and Japan
First South East Asia sales
First European dealer sales
Macau installation
First quarter results published: \$13.8M cash in hand
USCOM validation presented at World Congress of Anaesthetics

May - June 2004

May 2004	South China orders – Macau follow-up sale
May 2004	USCOM proven in heart pacemaker study
May 2004	USCOM in Emergency Care study
June 2004	World Heart expert buys USCOM machine
June 2004	First Australian hospital sale confirmed

Exhibitions and Awards

In the past 12 months, USCOM has been recognized with nominations for four prestigious national and international awards.

USCOM WINS DESIGN MARK AND POWERHOUSE DESIGN AWARD

USCOM was awarded a prestigious Design Mark in the 2003 Australian Design Awards and was selected as one of 14 outstanding products to be presented with a Powerhouse Museum Selection Award. The company's USCOM 1A Ultrasonic Cardiac Output Monitor was on show in a special exhibition in the Powerhouse Museum's Success and Innovation gallery.

USCOM WINS INTERNATIONAL AWARD FOR INNOVATION

USCOM was presented a major international prize at the Asian Innovation Awards. At a ceremony in Singapore, the Chairman of USCOM, Mr Rob Phillips was presented the inaugural Global Entrepolis Award by the Prime Minister of Singapore, Mr Goh Chok Tong. USCOM was selected from 142 companies nominated from throughout the Asia Pacific and granted the Award as the entry that best applied technology to a strong business model. The Asian Innovation Awards are hosted by the highly respected business magazine, The Far Eastern Economic Review and the Singapore Economic Development Board and judged by an independent panel of experts representing technology, business and the community.



WORLD TECHNOLOGY AWARD NOMINATION

The Chairman of USCOM, Mr Rob Phillips has been nominated for a prestigious Health & Medicine Award at the 2004 World Technology Awards. The nomination is for Mr Phillips' work associated with the invention and development of the USCOM non-invasive cardiac output monitor. The World Technology Awards are presented each year to outstanding innovators from each sector within the technology arena, both as a way to honour those individuals and as a vetting process to determine future membership of the World Technology Network. Nominations are made by previous winners of the awards. Winners will be announced at the World Technology Summit to be held in San Francisco in October.

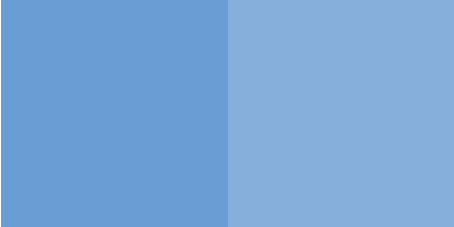
ATS PATRONS' AWARD FINALIST

In September, USCOM Limited was a finalist in the prestigious Australian Technology Showcase Patron's Award for 2004.

The ATS Patrons' Award recognises outstanding achievement in international markets for a member of the Australian Technology Showcase, and highlights the best in innovative New South Wales technologies.

The Awards were presented to six finalist companies by the NSW Treasurer and Minister for State Development, Mr Michael Egan, MLC in a ceremony at Government House in Sydney.





“USCOM is the most accurate clinical method of measuring blood flow.”

Validation Studies

A key element of USCOM's mission is scientific validation

The company has presented results from a rigorous series of tests, proving the accuracy of its technology. This proving process was conducted in three stages beginning with laboratory-based tests against computer controlled haemodynamics models at the MECABIO Institute of Biomechanics in France. The second stage involved two separate trials, in Hong Kong and at the Howard Florey Institute in Melbourne, testing USCOM against highly accurate flow probes attached to the hearts of animals. And the third stage involved multiple tests of USCOM against the industry “gold standard” thermodilution catheter, inserted into the hearts of human patients. The results of these independent studies has enabled the company to confidently state: USCOM is the most accurate clinical method of measuring blood flow.

The on-going presentation of scientific evidence proving the accuracy, reliability and usefulness of the company's technology across many clinical applications continues to be a high priority for the company.

6 October 2003: USCOM Anaesthetics Study Published at National Congress

A pilot study demonstrating the utility of the USCOM cardiac output monitoring method has been published at the Australian Society of Anaesthetics conference in Melbourne. The study was conducted by the Anaesthetics department at Royal Perth Hospital, using the USCOM monitor for the management of propofol dosage. The abstract states in part: “Cardiac output can be measured non invasively using a novel device from USCOM. It uses ultrasound to calculate cardiac output based on pulmonary arterial flow, using a validated Doppler technique.”

11 October 2003: Key USCOM Study Published

The Chairman of USCOM, Mr Rob Phillips, presented an important case study demonstrating the accuracy of the USCOM method compared to the gold standard method of cardiac output measurement to the World Congress of Echocardiography and International Society of Cardiovascular Ultrasound in Buenos Aires, Argentina. The case study, conducted at the Cardiac Transplantation Department of Royal Perth Hospital demonstrates that USCOM correlates well against the gold standard PAC thermodilution method in a difficult clinical environment.

Repeated side-by-side measurements in a difficult clinical subject at Royal Perth Hospital have demonstrated accurate agreement between USCOM and the PAC method, with a variation of just 2.6%.

22 October 2003: USCOM Proven in Precision Lab Test

USCOM Limited announced the results of an independent laboratory study conducted at the MECABIO Biomechanics Institute at Marseilles, France, which proved the accuracy of flow measurement by the USCOM Monitor. The USCOM device was validated in a computer controlled haemodynamic simulator. Under precision flow probe testing, the USCOM device exactly agreed with measured flow velocities up to 1.6 metres per second, the accurate range of the simulator.

16 December 2003: USCOM Releases Results From Important German Study

USCOM released the findings of a study, conducted at Hannover University Hospital in Germany, demonstrating the utility of the USCOM Cardiac Output Monitor in intensive care. The study, supervised by Dr Karsten Knobloch between August and September 2003, involved 26 consecutive patients comparing the non-invasive USCOM method with the invasive thermodilution catheter procedure. The conclusion of the study states: “Using the USCOM system it is possible to determine the beat-to-beat cardiac output in critically ill patients in the cardiac intensive care unit non-invasively with a high correlation to invasive determined cardiac output via a Swan-Ganz catheter...without the possible complications associated with invasive right heart catheterisation.”

30 January 2004: USCOM Releases Blood Flow Study

USCOM released an important paper relating to the company's patented method of calculating the volume of blood pumped by the human heart at the Asia Pacific Congress of Cardiology in Singapore. In a paper presented by USCOM Chairman Mr Rob Phillips, the company outlined its patented algorithm, based on the height of the patient, which is accurate for patients aged from six days to 76 years. In addition, USCOM has developed a similar unique method for the measurement of cardiac flow volumes in the foetus and pre-term babies.



“The USCOM is a promising clinical tool.”





Dr Karsten Knobloch with the USCOM technology in emergency care at Hannover University Hospital, Germany, in ambulances and rescue helicopters.

9 February 2004: USCOM Releases Critical Care Study

USCOM released results of an independent study demonstrating that the USCOM technology is a valid method for the non-invasive assessment of cardiac function among patients undergoing mechanical ventilation in Critical Care. This is one of the most challenging areas of cardiac assessment, because ventilation can act as a major impediment to accurate and reliable measurement of cardiac function. A study of 24 patients was conducted at the Department of Critical Care Medicine, Sundaram Medical Foundation, Chennai, India and found that an adequate transthoracic acoustic window could be obtained on 88% of the ventilated patients for the measurement of cardiac output.

The study concluded that USCOM "is an adequate mode of obtaining haemodynamic assessments in most mechanically ventilated patients in the intensive care unit." The study, conducted by Dr Ram E. Rajagopalan & Dr Suresh Kumar and titled "Efficacy of a Transthoracic Doppler System to Access Cardiac Function on Ventilated Patients in the Intensive Care Unit", was presented at the 10th annual conference of the Indian Society of Critical Care in Mumbai.

21 April 2004: USCOM Validation at World Congress of Anaesthetics

An important University study, validating the accuracy of the USCOM non-invasive heart monitor, was published at the World Congress of Anaesthesiology in Paris. The paper, entitled: "Validation Of A New Ultrasonic Cardiac Output Monitor, The USCOM" was presented by Associate Professor Lester Critchley from the Department of Anaesthesia and Intensive Care at the Chinese University of Hong Kong. Dr Critchley is a world authority on methods of measuring cardiac output and has been conducting research into the USCOM method since early 2003. The scientific paper contains results from a study of anaesthetised dogs, comparing USCOM with precision flow probes inserted into the hearts of the animals. The study demonstrated extremely close correlation between the two methods, with a mean bias between the two sets of readings of -0.01 Litres Per Minute and a mean Cardiac Output of 2.62 Litres Per Minute. The study, conducted at Prince of Wales Hospital, Hong Kong, involved 335 paired measures of cardiac output ranging from 0.9 to 5.6 Litres Per Minute and with various pharmacologic interventions. Dr Critchley's conclusion states: "The USCOM tracked drug induced changes in cardiac output to a high degree of precision over a wide range of cardiac outputs in all dogs. Our data compared extremely favourably with that published using other measurement devices. The USCOM is a promising clinical tool."

21 May 2004: Cost Effectiveness Proven in Heart Pacing Study

USCOM announced today the publication of results from a study proving the accuracy and cost-effectiveness of USCOM in the field of heart pacemakers. The study was presented at the North American Society of Pacing and Electrophysiology conference in San Francisco. The study, conducted at the University of Hong Kong by Professor C.P. Lau, a world authority on heart pacing, demonstrated a high degree of accuracy and efficiency for USCOM compared with traditional methods. Not only was USCOM accurate and the quickest method studied, it did not require specialist staff or the use of high cost ultrasound equipment. The study conclusion states: "USCOM is highly correlated with echo Doppler measured CO (Cardiac Output), and allows rapid AVO (Atrioventricular Optimisation) without the need of specialised echo machine and personnel. USCOM may be a cost-effective device for AVO." Professor Lau is Division Chief and Chair Professor of the Cardiology Division of the Department of Medicine at Hong Kong University and Queen Mary Hospital and is also a member of the Medical and Technology Advisory Board of USCOM.

7 June 2004: USCOM Reliable in Emergency Care Study

USCOM announced the outcome of an important study relating to the use of the USCOM cardiac output monitor in Emergency Care. The study, titled "Emergency Physicians can reliably assess Emergency Department patient cardiac output using the USCOM continuous wave Doppler cardiac output monitor" was presented at the International Conference of Emergency Medicine in Cairns. The study was conducted at the Department of Emergency Medicine at Fremantle Hospital in Perth, where a training protocol was developed to test the reliability of the USCOM measurements and to assess the feasibility of training clinicians. The study states: "In conclusion, this study demonstrates that ED (Emergency Department) physicians with no ultrasound experience can be trained to use the USCOM and reliably obtain cardiac output results non-invasively in the vast majority of ED patients." The study states that analysis of 52 cardiac output assessments in 21 patients demonstrated excellent correlation between users. It concludes that emergency physicians can be trained to obtain reliable cardiac output estimations over the course of 20 patient assessments with USCOM.

“Emergency Physicians can reliably assess Emergency Department patient cardiac output using the USCOM.”

Corporate Governance Statement

USCOM Limited is committed to a corporate culture of excellence, openness, and integrity.

The company, its directors, management and staff are committed to fostering and maintaining the highest professional standards in dealing with all its stakeholders, including investors, employees, customers and the public at large.

This commitment is under-pinned by adherence to a set of policies for best practice in Corporate Governance.

In addition to strict compliance with its obligations under law, including the Corporations Act and the Australian Stock Exchange Listing Rules, USCOM has adopted best practice policies, modeled on the ten core principles of good corporate governance as published in March 2003 by the ASX Corporate Governance Council.

The essential corporate governance principles are:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Encourage enhanced performance
9. Remunerate fairly and responsibly
10. Recognise the legitimate interests of stakeholders

The following is a point-by-point explanation of USCOM's compliance or otherwise with the ten core principles.

Principle 1: Lay solid foundations for management and oversight

USCOM Limited has adopted a formal board charter, describing the functions and responsibilities of the board as well as those functions and responsibilities delegated to the management of the company.

The key elements of the Board charter are:

Membership

The board's membership and structure is selected for optimum efficiency while providing high levels of expertise in science, medicine and business.

The board currently consists of five members; three of them being non-executive directors and two executive directors.

Meetings

The board will meet typically every six weeks, but not less than six times per year. Directors are expected to attend substantially all of the board meetings as well as relevant meetings of the board committees.

Roles and Responsibilities

The role and responsibilities of the board are to:

- Oversee the control and accountability of the company
- Set the broad targets, objectives and business strategy
- Monitor the financial performance
- Assess the company's risk exposure and review risk management options
- Oversee and approve remuneration, employment and succession policies
- Appoint and regularly evaluate the Chief Executive Officer
- Oversee the company's corporate governance and legal obligations
- Monitor the company's compliance with its Code of Conduct
- Review and approve the company's Research and Development Plan
- Ensure compliance with and good management of quality systems
- Approve all major capital purchases, asset disposals or acquisitions and the issue of new shares
- Appoint and remove the company's External Auditor

Committees

The company has appointed an Audit and Risk Committee, responsible for reporting to the full board on issues relating to the company's financial information and a regular review of the company's risk environment.

The Audit Committee, consisting of three independent directors, operates according to a Committee Charter, which is published in the annual report and on the company's website. The Audit Committee will meet at least four times per year.

Due to the relatively small size of the board, the company has chosen not to appoint a Remuneration Committee or a Nomination Committee for the foreseeable future.

Delegation to the CEO

The day-to-day management and operations of the company are delegated to the Chief Executive Officer (CEO).

“Emergency Physicians with no prior ultrasonographic experience can be trained to obtain reliable cardiac output estimations....with the USCOM over the course of 20 patient assessments.”

Study by Emergency Care Department, Fremantle Hospital, Perth

Principle 2: Structure the board to add value

USCOM Limited enjoys the services of a board with a wide range of professional experience in fields such as science, medicine, marketing and international business.

The board consists of:

- Mr Rob Phillips Chairman / Executive Director
- Mr Gary Davey Chief Executive / Executive Director
- Mr Roman Zwolenski Independent Director
- Dr Fred Berry Independent Director
- Mr Luke Fay Independent Director

Not a member of the board, but in attendance by invitation is the Company Secretary, Mr Paul Butler.

Recommendation 2.1

A majority of the board should be independent directors. The board consists of five members, three of whom are non-executive directors. The company takes the view that the three non-executive directors are also independent directors. In the interests of transparency, the company discloses relationships or business associations which may impact a person’s own interpretation of the definition of independent.

Mr Roman Zwolenski, Independent Director, Chairman of Audit and Risk Committee

Mr Zwolenski is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

As an experienced manager and board director in the international biotechnology industry, Mr Zwolenski brings invaluable experience to the oversight of the company’s policies and operations.

Disclosure: In 2002, Mr Zwolenski was engaged on a short-term consultancy basis by Bell Potter Securities Limited for the purpose of reviewing that company’s investment in USCOM. Since that time, Mr Zwolenski has not been an employee, officer or consultant to Bell Potter.

Response: The company takes the view that this past activity has not and would not affect Mr Zwolenski’s conduct or responsibilities as a director of the company.

Dr Fred Berry, Independent Director, member of Audit and Risk Committee

Dr Berry is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

Dr Berry, a highly experienced leader in the Australian anaesthetics community, has been associated with USCOM since the company’s inception. His insights into the workings of the medical industry are an essential component of the diligent running of the company.

Disclosure: Dr Berry is related through marriage to the Chairman of USCOM, Mr Rob Phillips, who is a substantial shareholder of the company.

Response: The company believes this relationship has not and would not affect Dr Berry’s conduct or responsibilities as a director of the company.



< Pictured left to right
Roman Zwolenski
Dr Fred Berry

Mr Luke Fay, Independent Director, member of Audit and Risk Committee

Mr Fay is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

Mr Fay, with a scientific background in cardiovascular research, is also a veteran of the medical devices industry having served in senior management and marketing positions at Medtronic, ATL Ultrasound and General Electric Medical Systems.

Disclosure: Mr Fay is a Director of Coefficient Systems Limited, a sales and marketing company which holds an exclusive distribution agreement with USCOM for Australia and certain Asian territories. USCOM Limited holds 10% of the equity of Coefficient Systems Limited.

Response: In determining a definition of independence the company has assessed whether, under this contract, Mr Fay is a “material supplier or customer of the company”.

Under Australian Accounting Standards Board standard 1031 a customer relationship is presumed immaterial when it generates less than 5% and presumed material when it generates more than 10% of revenue over a 12-month period.

The company takes the view that these levels would not be exceeded in the foreseeable future.

Wherever matters relating to Coefficient Systems were presented to the board, Mr Fay would absent himself from the board’s deliberations and decision making.

The company believes this relationship has not and would not affect Mr Fay’s conduct or responsibilities as a director of the company.

The full board will review this matter on a regular basis as part of its Corporate Governance and board performance review process.

Recommendation 2.2

The Chairperson should be an Independent Director.

The Chairman of USCOM Limited, Mr Rob Phillips, is an active member of the executive management team, is the company’s largest single shareholder and is not an independent director. The company’s non-compliance with this recommendation is based on a sound assessment of the best interests of all the stakeholders. Mr Phillips, as the inventor and founder of USCOM carries forward the vision and strategic direction of the company. The company believes it is essential that it maintain this momentum and continuity through the early formative years of the company.



The USCOM tracked drug induced changes in cardiac output to a high degree of precision in the majority of subjects. Our data compared extremely favourably with that published using other measurement devices.

Dr Lester Critchley, Chinese University, Hong Kong

Recommendation 2.3

The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Chairperson is Mr Rob Phillips. The Chief Executive Officer is Mr Gary Davey.

Recommendation 2.4

The board should establish a nomination committee.

The company believes that a nomination committee is not necessary at this stage of the company's development. Issues relating to board membership will continue to be overseen by the full board. The company believes this to be justified given the relatively small size of the board (i.e. five members) and that significant growth in the number of directors is not envisaged in the medium term.

Recommendation 2.5

Provide the information indicated in Guide to reporting on principle 2.

The following additional information will be published in the corporate governance section of the annual report:

- The term of office held by each director in office at the date of the annual report
- A description of the procedure for the selection and appointment of new directors to the board
- A statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company.

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1

Establish a code of conduct to guide the directors, the chief executive officer and other key executives as to:

3.1.1 The practices necessary to maintain confidence in the company's integrity.

3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The company has developed a code of conduct for directors, management and staff, underlining the company's

commitment to high ethical standards in the conduct of the company's business.

The Code of Conduct sets out the company's core values and serves as a checklist for our responsibilities under law, to the company, to the market, to our customers and to the public at large.

The Code of Conduct is a commitment to fair and honest trading and respect for people. It provides guidelines for staff, management and directors on:

- the defense on the company's reputation
- the proper management of the company's assets and resources
- the acceptance or offer of bribes and gifts
- the handling of conflicts of interest
- the reporting of breaches of the Code

The board of directors is responsible for ensuring the company's compliance with the Code and the good and fair management of reports of any breaches.

Recommendation 3.2

Disclose the policy concerning trading in company securities by directors, officers and employees.

The company has adopted a policy in relation to share trading, which applies to all staff, management and directors, members of their families and any trust or family companies in which they may have an interest.

Under the Constitution of the company, directors and employees of the Company may not trade the securities of the company in the 30 days prior to and 24 hours after the announcement of the company's half-year and full year financial results.

In addition, directors and employees who are in receipt of information which a reasonable person would expect to have a material effect on the price or value of USCOM shares and that information is yet to be published to the market, must not trade in USCOM securities.

Directors must notify the Company Secretary in advance of any trading in USCOM shares. Employees participating in the company's Share Options Programme must notify the Company Secretary in advance of any exercise of the employee's share options.

“We found excellent equivalence in our study and the accuracy of USCOM is probably now beyond doubt. USCOM is a very reliable adjunct to current practice.”

Dr Rajesh Chand, Escorts Heart Institute and Research Centre, Delhi, India

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1

Require the Chief Executive (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Chief Executive and the General Manager, who supervises financial and accounting matters, are required to sign off on the company's accounts, as recommended.

Recommendation 4.2

The board should establish an audit committee.

To assist in the execution of the Board's corporate governance responsibilities, USCOM Limited has established an Audit and Risk Management Committee. The Committee is made up of three members with the majority being independent directors and an independent director as Chairman. The Company Secretary acts as Secretary to the Committee.

The Audit and Risk Management Committee shall meet no less than three times per year or additionally as special circumstances arise. The External Auditors and management attend meetings of the committee by invitation.

The Audit and Risk Committee Charter is published on the company's website along with the complete set of Corporate Governance documentation.

The key roles and responsibilities of the Audit and Risk Committee are as follows:

- Review interim and annual financial statements;
- The establishment and maintenance of a framework of risk management;
- Internal controls and ethical standards for the management of the economic entity;
- Ensure accounting records are maintained in accordance with statutory and accounting standards requirements;
- Monitor systems designed to ensure financial statements and other information provided is timely, reliable and accurate;
- Review asset values to ensure they are appropriate and meet the requirements of Corporation Laws and Accounting Standards;
- Review audit process with External Auditors to ensure full and frank discussion of audit issues in absence of management;

- Assess the adequacy of the company's control and risk environment, including accounting, financial and operating controls and the appropriateness of its accounting policies and practices;
- Act as the link between the board and the External Auditors, reviewing, on a half and full year basis, the financial results, tax returns and reports to the board on findings prior to publication and release to the market; and
- To review and evaluate the performance, independence and effectiveness of the External Auditors.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.

The company has produced and adopted a Disclosure Policy, which has been communicated to all directors, managers and employees.

Principle 6: Respect the rights of shareholders

Recommendation 6.1

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

USCOM Limited is committed to keeping shareholders fully informed of significant developments and activities at the company.

The company's primary communications tool is its website, and all announcements are posted on the front page of the site, immediately after they are released to the ASX through the appropriate electronic publication procedure.

All announcements, dating back to May 2001, remain available on the website.

In addition, the website provides an "Investors" section, where more detailed information is available, including access to all of the company's financial statements and the delayed share trading data produced by the ASX.

Where information may be provided to market analysts or the media which is materially incremental to the announcements already published, this information would be treated as an announcement and published accordingly.

Shareholders are encouraged to actively communicate with the company through contact details provided on the website.

The company also encourages shareholders to participate in the annual general meeting, which will be held in central Sydney. Ample notice of this meeting will be provided. The company will also make the live proceedings of the annual meeting available through audio conferencing facilities. All documents and presentations delivered to the annual meeting will be posted immediately on the company website.

Recommendation 6.2

Request the External Auditor 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 auditor's report.

The company's auditors, PKF Chartered Accountants will be in attendance at the annual general meeting and will be available to answer questions from shareholders.

Principle 7: Recognise and manage risk

Recommendation 7.1

The board or appropriate board committee should establish policies on risk oversight and management.

The company has appointed an Audit and Risk Management Committee, comprising three independent directors. The Committee is charged with oversight of the company's risk profile. The committee assesses the adequacy of the company's control and risk environment, including accounting, financial and operating controls and the appropriateness of its accounting policies and practices.

The committee manages a dynamic checklist of potential risk components and reviews each component during the course of a year.

Recommendation 7.2

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the board in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

The chief executive officer and the general manager will state in writing to the board, as above.

Principle 8: Encourage enhanced performance

Recommendation 8.1

Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

As stated previously, the company does not currently see the need for a Nomination Committee, given the relatively small size of the board.

The performance of directors' committees and key executives will be reviewed by the full board, on an annual basis, or more often if appropriate.

The criteria for the measurement of directors' performance are:

1. Attendance at board meetings and/or committee meetings
2. Level of participation in strategic decision making
3. Responsiveness to requests for activity outside meetings

The company will produce a set of procedures for the induction of new directors and senior executives of the company. This will include a detailed briefing about the strategic direction of the company and a full set of appropriate documents for the education of the new member.

Principle 9: Remunerate fairly and responsibly

Recommendation 9.1

Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

Remuneration Policy

USCOM Limited has adopted a remuneration policy based on performance and contribution.

The objective of these policies is to:

- (a) Make USCOM an employer of choice
- (b) Make all employees direct stakeholders in the success of the company
- (c) Attract and retain the highest calibre personnel
- (d) Encourage a culture of reward for effort and contribution
- (e) Set incentives that reward short and medium term performance for the company as a whole
- (f) Encourage professional and personal development

In addition to base salary, the company has a policy of rewarding extraordinary contribution to the growth of the company with the grant of an annual cash bonus and options under the company's Share Options Plan.

Each staff member's performance is reviewed by the employee's direct manager, typically in July of each year. In this review, the objectives for the forthcoming 12-month period are mutually agreed and performance against the preceding year's objectives is reviewed. Where an employee has exceeded the objectives and or reasonable expectations of the manager, the employee will be considered for both a cash bonus and a share options grant. (The options grants are to be implemented in December of each year.)

Each manager will submit to the Chief Executive a set of recommendations arising from the employee review. The Chief Executive will then make recommendations to the board.

In the case of senior executives, i.e. the Chairman, Chief Executive and General Manager, a recommendation for compensation review will be made by the Chairman to the board, which will conduct a performance review, as described above.

The company does not currently include motor vehicle or accommodation allowances as part of its remuneration packages. However, this may change in due course as and when the company commits to the establishment of regional offices.

Recommendation 9.2

The board should establish a remuneration committee.

Given the relatively small size of the USCOM board, the company does not currently see the need for a separate Remuneration Committee. As stated in the ASX Corporate Governance Council guidelines, "Particularly for large companies, a remuneration committee can be a more efficient mechanism than the full board for focusing the company on appropriate remuneration policies...It is recognised that for smaller boards, the same efficiencies may not be apparent from a formal committee structure."

The oversight of the company's remuneration policies, employee relations strategies, recruitment, management of the Share Options Plan, management development and succession planning are all matters for the full board. The board will take into account the recommendations of the Chief Executive in its deliberations on remuneration. It will also consider prevailing remuneration levels for equivalent positions in comparative industries and or companies. The board may from time to time engage the services of independent consultants to assist in these deliberations.

Recommendation 9.3

Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

Non-executive directors are compensated in the form of fees. They do not participate in bonus or share options programmes as applied to staff and executives. Although each of the five directors of the company (two executive and three non-executive) were each granted 40,000 share options at the time of the company's ASX listing in December 2003, no further share options will be granted to non-executive directors as part of their remuneration. Non-executive directors do not receive retirement benefits other than statutory superannuation.

For the financial year to June 30, 2004, the aggregate amount of remuneration that may be paid to non-executive directors is \$150,000. (Executive directors do not receive directors' fees). The remuneration for non-executive directors is set by resolution of shareholders.

Principle 10: Recognise the legitimate interests of stakeholders

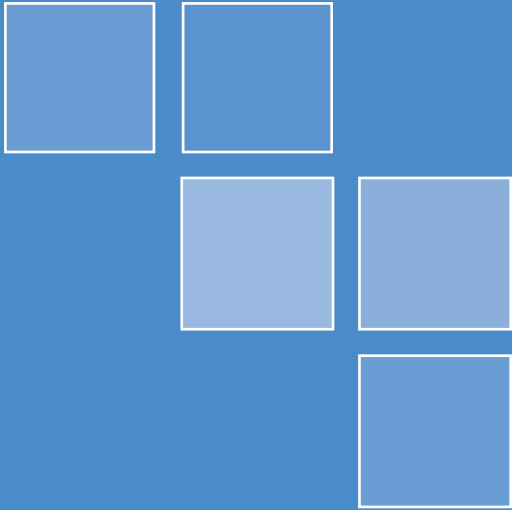
Recommendation 10.1

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The company has produced and adopted a Code of Conduct, which has been communicated to all directors, managers and employees and is published on the company's website as part of its Corporate Governance documentation.

Using the USCOM system it is possible to determine the beat-to-beat cardiac output in critically ill patients in the cardiac intensive care unit non-invasively with a high correlation to invasive determined cardiac output via a Swan-Ganz catheter... without the possible complications associated with invasive right heart catheterisation.

Dr Karsten Knobloch, Hannover University Hospital, Germany



Directors' Report & Financial Statements



Directors' Report

The Directors present their report on USCOM Limited for the financial year ended 30 June 2004.

Directors

The following persons were Directors of USCOM Limited during the whole of the financial year and up to the date of this report.

Mr R A Phillips	Executive Director - Chairman
Mr G D Davey	Executive Director - Chief Executive Officer & Deputy Chairman
Mr L H Fay	Non-executive Director
Dr F R Berry	Non-executive Director (appointed on 29 August 2003)
Mr R Zwolenski	Non-executive Director

Directors' Qualifications and Experience

Mr Rob Phillips

Rob Phillips is the Chairman of USCOM Limited and the inventor of the USCOM method. He is a recognised pioneer in the field of digital echocardiography and has presented scientific papers at some of the world's most prestigious cardiology conferences, including the World Congress of Echocardiography and the World Congress of Cardiology. Mr Phillips is a Fellow of the Institute of Radiology, Head of the Cardiac Faculty of the Australian Institute of Ultrasound and is Chairman of the Cardiac Education & Standards Subcommittee of the Australian Society of Ultrasound in Medicine.

Mr Gary Davey

Gary Davey is a co-founder of USCOM Limited and acts as the Chief Executive and Deputy Chairman. Mr Davey is a seasoned business manager with managerial experience in the United States, Europe and Asia. Prior to returning to Australia in January 2000, Mr Davey had worked overseas for 19 years as a senior executive of the News Corporation in New York, London and Hong Kong and served as a member of News Corporation's Executive Committee.

Dr Fred Berry

Dr Berry is a non-executive Director of USCOM Limited. Dr Berry is one of Australia's most highly respected figures in the field of Anaesthesiology and has served on numerous industry bodies and Government committees. In addition to numerous clinical postings at major hospitals in Australia, Dr Berry's academic activities have taken him to training and teaching assignments in Europe and Asia.

Mr Luke Fay

Mr Fay is a non-executive Director of USCOM Limited. He brings to the company a wealth of experience in the development and marketing of medical devices. Mr Fay is a seasoned executive in the devices field, having led teams of sales and marketing professionals through Australia and Asia. Mr Fay has held various professional roles including Councillor, Australasian Society for Ultrasound in Medicine, Chairman of the Marketing Committee of ASUM and President of the Diagnostic Imaging Association of Australia.

Mr Roman Zwolenski

Mr Zwolenski is a non-executive Director of USCOM Limited. Mr Zwolenski is a highly experienced company Director, holding board positions with a number of Australian companies. Mr Zwolenski graduated from the University of New South Wales in 1972 and was awarded a BSc degree with majors in Biochemistry and Microbiology. Mr Zwolenski has also held executive positions with international biomedical and pharmaceutical companies. He has been a fellow of Australian Institute of Company Directors since 1995.

Directors' Interest

Details are included in Note 29.

Directors' Remuneration

Details are included in Note 29.



Meeting of Directors

Directors	Board of Directors		Audit Committee		Risk Committee	
	Meetings held while a Director	No. of meetings attended	Meetings held while a member	No. of meetings attended	Meetings held while a member	No. of meetings attended
R A Phillips	7	7	-	-	-	-
G D Davey	7	7	-	-	-	-
L H Fay	7	7	3	2	3	2
F R Berry	7	6	3	3	3	3
R Zwolenski	7	7	3	3	3	3

Principal Activities

USCOM Limited is engaged in the development, design, manufacture and marketing of non-invasive cardiac monitoring devices. USCOM owns a portfolio of intellectual property relating to the technology and techniques associated with these devices and manages a worldwide network of distribution partners for the sale of its equipment to hospitals and other medical care locations.

Operating Results

The loss of the economic entity after providing for income tax amounted to \$1,251,684.

Dividends

No dividends were declared or recommended for the financial year ended 2004.

Significant Changes in State of Affairs

USCOM Limited listed on the Australian Stock Exchange on December 10, 2003, issuing 8 million new ordinary shares at a price of \$2.00 per share and raising \$16 million.

Review of Operations

The review of operations is stated on pages 8 to 13 of the annual report.

Post Balance Date Events

No matter or circumstance has arisen since the end of the financial year to the date of this report, that has significantly affected or may significantly affect the activities of the economic entity, the results of those activities or the state of affairs of the economic entity in the ensuing or any subsequent financial year.

Future Developments

Other than the business activities described in the annual report, the Board is not aware of any likely developments in the foreseeable future which may materially impact on the financial outlook of the company.

Environmental Issues

The economic entity's operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

Indemnifying Officers

The company has paid premiums to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company.

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.

This report is signed in accordance with a resolution of the board of directors.

Rob Phillips, Director
Sydney, 16 September 2004

Gary Davey, Director



Statement of Financial Performance

For the financial year ended 30 June 2004

	Note	2004 \$	2003 \$
Revenues from ordinary activities	2	948,342	189,585
Raw materials and consumables used		(92,888)	(7,197)
Expenses from ordinary activities, excluding borrowing cost expenses	3	(2,257,070)	(1,319,983)
Borrowing cost expenses		(1,804)	-
Loss from ordinary activities before income tax		(1,403,420)	(1,137,595)
Income tax credit relating to ordinary activities	4	151,736	287,417
Net loss from ordinary activities after income tax credit	5	(1,251,684)	(850,178)
Total changes in equity		(1,251,684)	(850,178)
Earning per share (EPS)			
Basic earnings per share (cents per share)	6	(3.6)	(2.8)
Diluted earnings per share (cents per share)	6	(3.6)	(2.8)

This Statement of Financial Performance is to be read in conjunction with the attached notes.

Statement of Financial Position

As at the financial year ended 30 June 2004

	Note	2004 \$	2003 \$
CURRENT ASSETS			
Cash assets	7	13,324,934	389,302
Receivables	8	293,868	29,639
Inventories	10	197,941	79,189
Current tax assets	11	22,981	31,605
Other	14	349,932	213,060
TOTAL CURRENT ASSETS		14,189,656	742,795
NON-CURRENT ASSETS			
Receivables	8	10,004	10,000
Other financial assets	9	100,030	100,030
Plant and equipment	12	158,461	113,558
Intangible assets	13	146,266	55,174
TOTAL NON-CURRENT ASSETS		414,761	278,762
TOTAL ASSETS		14,604,417	1,021,557
CURRENT LIABILITIES			
Payables	15	231,453	62,648
Non interest bearing liabilities	16	-	81,808
Provisions	17	37,314	7,692
Lease incentives	18	12,938	-
TOTAL CURRENT LIABILITIES		281,705	152,148
NON-CURRENT LIABILITIES			
Provisions	17	10,581	-
Lease incentives	18	19,406	-
TOTAL NON-CURRENT LIABILITIES		29,987	-
TOTAL LIABILITIES		311,692	152,148
NET ASSETS		14,292,725	869,409
EQUITY			
Contributed equity	19	16,644,265	1,969,265
Accumulated losses	5	(2,351,540)	(1,099,856)
TOTAL EQUITY		14,292,725	869,409

This Statement of Financial Position is to be read in conjunction with the attached notes.

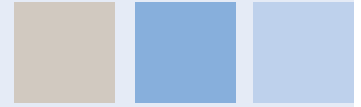


Statement of Cash Flows

For the financial year ended 30 June 2004

	Note	2004 \$	2003 \$
Cash flows from operating activities			
Receipts from customers		144,523	-
Grants received		122,830	200,730
Payments to suppliers and employees		(2,210,011)	(1,401,865)
Interest received		264,440	27,596
Interest and other costs of finance paid		(1,945)	-
Income tax receipt		213,060	74,357
Net cash provided by operating activities	20(b)	(1,467,103)	(1,099,182)
Cash flows from investing activities			
Payments for purchase of plant and equipment		(85,493)	(107,430)
Payments for purchase of patents and trademarks		(104,963)	(55,704)
Net cash provided by investing activities		(190,456)	(162,504)
Cash flows from financing activities			
Proceeds from issue of shares		16,029,990	1,700,000
Share issue cost		(1,354,990)	(151,300)
Repayment of non interest bearing liabilities		(77,093)	-
Net cash provided by financing activities		14,597,907	1,548,700
Net increase in cash held		12,940,348	287,014
Cash at 1 July 2003		384,586	97,572
Cash at 30 June 2004	20(a)	13,324,934	384,586

This Statement of Cash Flows is to be read in conjunction with the attached notes.



Notes to the Financial Statements

For the financial year ended 30 June 2004

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers USCOM Limited. USCOM Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies used by USCOM Limited in the preparation of the financial report.

(a) Cash

For the purpose of the statement of cash flows, cash includes the following, net of bank overdrafts, all cash on hand, at call deposits with banks or financial institutions and investments in money market instruments maturing within less than 14 days.

(b) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to customers. Interest revenue is recognised in the period in which it is derived. Dividend revenue is recognised when the right to receive a dividend has been established. Government grants revenue is recognised when earned.

(c) Inventories

Inventories are measured at the lower of cost or net realisable value. Cost is based on the weighted average principle. The cost of manufactured products includes direct materials (including contracted costs), direct labour and an appropriate portion of variable and fixed overheads. The costs are recognised when materials are delivered to the company.

(d) Plant and equipment

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

Plant & Equipment

Items of plant and equipment are measured on the basis of lower of cost or recoverable value and are depreciated over 2 to 7 years.

(e) Depreciation

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

(f) Leases

Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments for operating leases are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability.



Notes to the Financial Statements

For the financial year ended 30 June 2004

(g) Investments

Non-current investments are measured at the lower of cost or recoverable value. The recoverable amount is assessed from the underlying net assets for non-listed investments.

(h) Research & Development expenditure

Research costs are charged to profit or loss from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

(i) Intangibles

Patents and Trademarks

Patents and Trademarks are valued in the accounts at cost of acquisition and are amortised on a straight-line basis over 8 years.

(j) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit or loss from ordinary activities as they arise.

(k) Income Tax

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

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

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

(l) Provisions

Employee Entitlements

Provision is made for the company liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year, together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amount expected to be paid when the liability is settled, plus related on-costs. Other employee benefits later than one year have been measured at the present value of the estimated future cash outflow to be made for those benefits.

Contributions are made by the Company to employees' superannuation funds and are charged as expenses when incurred.

Provision for Warranties

Provision is made in respect of the Company's estimated liability on all products and services under warranty at balance date. The provision is measured at the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the company's history of warranty claims.

Doubtful Debts

Amounts owing to the Company are assessed and a general provision is made to cover likely doubtful debts.



Notes to the Financial Statements

For the financial year ended 30 June 2004

(m) Liabilities

Liabilities are carried on the Statement of Financial Position at their principal amount. Any interest expense is accrued at the contracted rate and the accrued amount, if any, is included in accruals and sundry creditors.

(n) Goods and Services Tax (GST)

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

(o) Receivables

Trade account receivables are recognised and carried at original invoice amounts less provision for doubtful debts. An estimated doubtful debt is made when collection of the full amount is no longer probable. Debts are written off as incurred.

(p) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(q) Comparative figures

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

(r) Adoption of Australian Equivalents to International Financial Reporting Standards

Australian equivalents to IFRSs will be adopted in the financial report for the year ending 30 June 2006 and in the comparative information presented in that report for the year ending 30 June 2005. In preparation, opening balances at 1 July 2004 for the year ending 30 June 2005 will be converted to IFRSs in accordance with a new Standard AASB 1 "First-time Adoption of International Financial Reporting Pronouncements".

The transition to Australian equivalents of IFRSs is being managed by a special project group headed by Paul Butler, USCOM's General Manager. Work has commenced in gathering information in the following areas where key differences might arise:

Share-based payments

The present policy of providing share-based compensation to employees will, under IFRSs, result in the recognition of an expense and an equivalent increase in equity.

Income tax

The method of accounting for income tax under IFRSs will lead to the recognition of temporary differences for assets and liabilities which may be different from those which are presently recognised only for timing differences.

Intangible assets

The accounting for intangible assets currently recognised and revalued each year will change. Some of the intangible assets may need to be derecognised where the recognition criteria for intangible assets under IFRSs are not met. In addition, those revaluations which have not been determined by reference to an active market will be derecognised.

Impairment of assets

Recoverable amount under IFRSs is the higher of fair value less costs to sell and value in use. Under IFRSs the amount must be determined in some cases by reference to separate cash generating units. This could lead to different recoverable amounts being established for the assets used in certain operations compared with those presently determined.



Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004	2003
	\$	\$
NOTE 2: REVENUE FROM ORDINARY ACTIVITIES		
Operating revenue		
Sale of goods	384,390	29,639
Grants received	122,830	132,350
Exchange gains	11,989	-
Total operating revenue	<u>519,209</u>	<u>161,989</u>
Non-operating revenue		
Interest received	429,133	27,596
Total non-operating revenue	<u>429,133</u>	<u>27,596</u>
Total revenue from ordinary activities	<u>948,342</u>	<u>189,585</u>

NOTE 3: EXPENSES FROM ORDINARY ACTIVITIES, EXCLUDING BORROWING COST EXPENSES

Depreciation and amortisation expenses	57,127	11,598
Employee expenses	700,332	120,977
Research and development expenses	342,052	560,087
Advertising and marketing expenses	737,055	542,661
Occupancy expenses	139,506	46,562
Auditors remuneration (audit)	27,500	-
Auditors remuneration (audit review)	11,660	-
Regulatory expenses	91,825	858
Administrative expenses	142,724	31,458
Other expenses from ordinary activities	7,289	5,782
Total expenses from ordinary activities, excluding borrowing cost expenses	<u>2,257,070</u>	<u>1,319,983</u>

Operating lease expenses of \$71,355 in 2004 and \$21,569 in 2003 are included in occupancy expenses above.

NOTE 4: INCOME TAX CREDIT

Research and development tax offset	151,736	287,417
Total income tax credit	<u>151,736</u>	<u>287,417</u>

Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004	2003
	\$	\$
NOTE 5: ACCUMULATED LOSSES		
Accumulated losses at the beginning of the financial year	(1,099,856)	(249,678)
Net loss attributable to members of the company	(1,251,684)	(850,178)
Accumulated losses at the end of the financial year	(2,351,540)	(1,099,856)

NOTE 6: EARNINGS PER SHARE

Net loss used in calculation of basic and diluted EPS	1,251,684	850,178
	No.	No.
Weighted average number of ordinary shares during the year used in calculation of basic EPS	34,437,158	3,000,000
Weighted average number of options outstanding	449,536	-
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	34,886,694	3,000,000
Basic earning per share (cents per share)	(3.6)	(2.8)
Diluted earning per share (cents per share)	(3.6)	(2.8)

NOTE 7: CASH ASSETS

Cash on hand	336	-
Bank: Cheque accounts	161,685	-
Bank: Cash management	2,136,444	389,302
Bank: Term deposits	11,026,469	-
Total cash assets	13,324,934	389,302

NOTE 8: RECEIVABLES

<u>Current</u>		
Trade debtors	293,868	29,639
Total current receivables	293,868	29,639
<u>Non-current</u>		
Rental bond	10,004	10,000
Total non-current receivables	10,004	10,000

Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004 \$	2003 \$
NOTE 9: OTHER FINANCIAL ASSETS		
<u>Non-current</u>		
Shares in unlisted company		
Coefficient Systems Pty Ltd (at Cost)	100,030	100,030
Total other financial assets	100,030	100,030
Coefficient Systems Pty Ltd operates in the distribution of medical equipment.		
USCOM holds 10% of the issued shares in Coefficient Systems Pty Ltd. (Refer to Note 22)		
NOTE 10: INVENTORIES		
<u>Current</u>		
Raw materials at cost	28,241	79,189
Finished products at cost	169,700	-
Total inventories	197,941	79,189
NOTE 11: CURRENT TAX ASSETS		
GST receivable	22,981	31,605
Total current tax assets	22,981	31,605
NOTE 12: PLANT AND EQUIPMENT		
Plant and equipment at cost	133,550	98,664
Less accumulated depreciation	28,851	7,461
	104,699	91,203
Office furniture and equipment at cost	42,997	9,396
Less accumulated depreciation	9,889	485
	33,108	8,911
Computer software at cost	9,788	3,732
Less accumulated depreciation	3,531	1,576
	6,257	2,156
Low value asset pool at cost	21,856	12,820
Less accumulated depreciation	7,459	1,532
	14,397	11,288
Total plant and equipment	158,461	113,558

Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004 \$	2003 \$		
<u>Movements in carrying amounts</u>				
	Plant and equipment	Office furniture	Computer software	Low value asset pool
	\$	\$	\$	\$
Useful life	2-7 years	2-7 years	3 years	3 years
Opening value at 1 July 2003	91,203	8,911	2,156	11,288
Additions	36,799	33,601	6,056	9,037
Depreciation expense	(23,303)	(9,404)	(1,955)	(5,928)
Carrying amount at 30 June 2004	104,699	33,108	6,257	14,397

NOTE 13: INTANGIBLE ASSETS

Non-current

Patents at cost	165,678	58,049
Less accumulated amortisation	19,412	2,875
	146,266	55,174

NOTE 14: OTHER ASSETS

Current

Income tax credit	151,736	213,060
Accrued interest income	164,694	-
Prepayments	33,502	-
Total other assets	349,932	213,060

NOTE 15: PAYABLES

Current

Trade creditors	151,141	18,464
Accruals and sundry creditors	32,486	22,485
Employee related payables	47,826	21,699
Total payables	231,453	62,648



Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004 \$	2003 \$
NOTE 16: NON INTEREST BEARING LIABILITIES		
<u>Current</u>		
Bank: Cheque account	-	4,716
Loan: Northern Cardiac Sonography Pty Ltd (refer to Note 22)	-	77,092
Total non interest bearing liabilities	-	81,808
NOTE 17: PROVISIONS		
<u>Current</u>		
Employee entitlements	37,314	7,692
<u>Non-current</u>		
Employee entitlements	10,581	-
Aggregate employee benefits liability	47,895	7,692
Number of employees at year-end	14	6
NOTE 18: LEASE INCENTIVES		
Current	12,938	-
Non-current	19,406	-
Total lease incentive	32,344	-
NOTE 19: CONTRIBUTED EQUITY		
Ordinary shares		
<u>Issued capital</u>		
Fully paid ordinary shares	16,644,265	1,969,255
Partly paid ordinary shares	-	10
Total contributed equity	16,664,265	1,969,265



Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004 \$	2003 \$
<u>Contributed equity movement</u>		
Shares on issue at the beginning of the year	1,969,265	420,560
Proceeds of balance of partly paid shares	29,990	-
Proceeds of shares issued on 10 December 2003	16,000,000	1,700,005
Costs relating to share issue	(1,354,990)	(151,300)
Ordinary shares at the end of the year	16,664,265	1,969,265

	No.	No.
<u>Ordinary Shares</u>		
Ordinary shares at the beginning of the year	30,000,000	30,000,000
Shares issued on 10 December 2003	8,000,000	-
Total fully paid ordinary shares	38,000,000	30,000,000

On 10 December 2003, the company issued 8,000,000 ordinary shares at \$2 each to shareholders in the initial public offer.

Fully paid ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, or via a show of hands.

The closing share market price of an ordinary share of USCOM Limited on the Australian Stock Exchange at 30 June 2004 was \$3.15.

Options

For information relating to USCOM Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 28.

At 30 June 2004, there were 855,000 unissued ordinary shares for which options were outstanding.	855,000	-
Total outstanding options at 30 June 2004	855,000	-



Notes to the Financial Statements

For the financial year ended 30 June 2004

	2004 \$	2003 \$
NOTE 20: CASH FLOW INFORMATION		
(a) Reconciliation of cash		
Cash at bank and on hand	13,324,934	389,302
Bank overdraft	-	(4,716)
Total cash at end of year	13,324,934	384,586
(b) Reconciliation of net cash provided by operating activities to loss from ordinary activities after income tax		
Loss from ordinary activities after income tax	(1,251,684)	(850,178)
<i>Non cash flows in loss from ordinary activities</i>		
Depreciation	40,590	8,723
Amortisation	16,537	2,875
<i>Change in assets and liabilities</i>		
<i>(Increase)/Decrease in assets</i>		
Debtors	(264,229)	(29,639)
Inventories	(118,752)	(79,189)
Prepayments	(33,502)	50,010
Income tax	61,324	(213,060)
Accrued income	(164,694)	-
GST assets	8,624	(20,553)
Bond deposits	(4)	(10,000)
<i>Increase/(Decrease) in liabilities</i>		
Creditors	132,677	(7,313)
Accruals and sundry creditors	7,335	22,485
Employee related payables	26,128	18,965
Employee provisions	40,203	7,692
Lease incentive	32,344	-
Net cash used by operating activities	(1,467,103)	(1,099,182)



Notes to the Financial Statements

For the financial year ended 30 June 2004

NOTE 21: FINANCIAL INSTRUMENTS

Financial instruments

At 30 June 2004, there were no outstanding contracts.

Credit risk

The credit risk on financial assets of the economic entity which have been recognized on the Statement of Financial position is generally the carrying amount, net of any provisions for loss.

Except for the following concentration of credit risks, the economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity,

Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows: (see overleaf)

NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)

Fixed Interest Rate Maturing

	Weighted Average Effective Interest Rate %	Floating Interest Rate \$		Within 1 Year \$		1 to 5 Years \$		Over 5 Years \$		Non-interest Bearing \$		Total \$
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	
Financial assets:												
Cash	5.352	4.400	13,298,465	389,302	-	-	26,469	-	-	-	-	389,302
Trade debtors			-	-	-	-	-	-	-	293,868	29,639	293,868
Investments			-	-	-	-	-	-	-	100,030	100,030	100,030
Receivables	6.50	6.50	-	-	-	10,004	10,000	-	-	339,411	244,665	254,665
Total financial assets			13,298,465	389,302	-	-	36,473	10,000	-	733,309	374,334	14,068,247
Financial liabilities:												
Bank overdraft			-	-	-	-	-	-	-	-	4,716	4,716
Trade creditors			-	-	-	-	-	-	-	151,141	18,464	151,141
Payables			-	-	-	-	-	-	-	80,312	44,184	80,312
Loans			-	-	-	-	-	-	-	-	77,092	77,092
Total financial liabilities			-	-	-	-	-	-	-	231,453	144,456	144,456
Net financial assets			13,298,465	389,302	-	-	36,473	10,000	-	501,856	229,878	13,836,794
Reconciliation of net financial assets to net assets												
Net financial assets as above												629,180
Non financial assets and liabilities												
Inventories											13,836,794	629,180
Prepayments											197,941	79,189
Plant and equipment											33,502	-
Intangible assets											158,461	113,558
Provisions											146,266	55,174
Lease incentive (operating)											(47,895)	(7,692)
											(32,344)	-
Net assets per Statement of Financial position											14,292,725	869,409



Notes to the Financial Statements

For the financial year ended 30 June 2004

2004	2003
\$	\$

NOTE 22: RELATED PARTIES INFORMATION

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

USCOM holds 10% of the issued shares in Coefficient Systems Pty Ltd. As directors of USCOM Limited, Mr Fay is a director of Coefficient Systems Pty Ltd; Mr Phillips is a director of Coefficient Systems Pty Ltd and Northern Cardiac Sonography Pty Ltd.

Financial performance and position with Coefficient Systems Pty Ltd

Sales to Coefficient Systems Pty Ltd	43,341	29,639
	<hr/> 43,341	<hr/> 29,639
Current receivables	66,524	29,639
	<hr/> 66,524	<hr/> 29,639
Current payables	883	-
	<hr/> 883	<hr/> -

Financial performance and position with Northern Cardiac Sonography Pty Ltd

Non interest bearing liabilities (repaid during the year)	-	77,092
	<hr/> -	<hr/> 77,092

Refer to Note 29 for details of directors' interest in shares.

NOTE 23: SEGMENT INFORMATION

USCOM operates in the health products industry

Geographic segment revenues

Australia	55,817	-
North Asia	250,102	-
South-East Asia	43,341	-
Middle East	-	29,639
Europe	35,130	-
Segment total	<hr/> 384,390	<hr/> 29,639



Notes to the Financial Statements

For the financial year ended 30 June 2004

2004	2003
\$	\$

NOTE 24: CONTINGENCIES

There are no contingencies as at 30 June 2004.

NOTE 25: COMMITMENTS

Operating lease commitments

Operating commitments represent payments due for office rental and have an average term of 3 years.

Less than 1 year	12,938	-
Between 1 and 5 years	19,406	-
	<hr/> 32,344	<hr/> -

NOTE 26: AUDITORS' REMUNERATION

Audit of financial report	27,500	-
Review of financial report	11,660	-
	<hr/> 39,160	<hr/> -

NOTE 27: SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the financial year to the date of this report, that has significantly affected or may significantly affect the activities of the economic entity, the results of those activities or the state of affairs of the economic entity in the ensuing or any subsequent financial year.

Notes to the Financial Statements

For the financial year ended 30 June 2004

NOTE 28: EMPLOYEE SHARE OPTION PLAN

The Company has adopted an Option Plan for the benefit of executive and non-executive directors and full-time or part-time staff members employed by the Company. At the date of this Report the following options had been issued pursuant to the Option Plan. Each option was issued for a period of 4 years and which vest at the rate of 25% per annum for each completed year of service. No options are exercisable in the first 9 months after the grant date.

On 20 October 2003, 680,000 options were granted to directors, members of the advisory committee and employees at an exercise price of \$2.00 each. At reporting date, 40,000 of these options had lapsed.

On 1 June 2004, 215,000 options were granted to employees at various exercise prices (refer to Options granted during the financial year below). Exercise price is based on 85% of the average ASX closing price for the 5 days prior to offer/acceptance of the options, in accordance with the USCOM Limited share option plan.

At 30 June 2004, no options are exercisable.

<u>Movement during the financial year</u>	30 June 2004	30 June 2003
	No.	No.
Opening number of options	-	-
Granted during the financial year	895,000	-
Lapsed during the financial year	(40,000)	-
Exercised during the financial year	-	-
Closing number of options	855,000	-

<u>Options granted during the financial year</u>	30 June 2004	Exercise price
	No.	\$
Options granted on 20 October 2003	680,000	2.00
Options granted on 1 June 2004	100,000	2.00
	30,000	2.01
	50,000	2.17
	15,000	2.18
	20,000	2.28
	215,000	
Total options granted during the financial year	895,000	

<u>Details of options outstanding as at end of year</u>				30 June 2004	Exercise price
Holders No.	Granted date	Total exercisable	Expiry date	Option No.	\$
5 (Directors)	20 October 2003	-	20 October 2007	200,000	2.00
5 (Advisory committee)	20 October 2003	-	20 October 2007	150,000	2.00
5	20 October 2003	-	20 October 2007	290,000	2.00
2	1 June 2004	-	1 June 2008	100,000	2.00
1	1 June 2004	-	1 June 2008	30,000	2.01
1	1 June 2004	-	1 June 2008	50,000	2.17
1	1 June 2004	-	1 June 2008	15,000	2.18
1	1 June 2004	-	1 June 2008	20,000	2.28
Total				855,000	

Notes to the Financial Statements

For the financial year ended 30 June 2004

NOTE 29: DIRECTORS' AND EXECUTIVES' REMUNERATION

The following persons were directors of USCOM Limited during the financial year and up to the date of this report.

Director

Mr R A Phillips	Executive Director - Chairman
Mr G D Davey	Executive Director - Chief Executive Officer & Deputy Chairman
Mr L H Fay	Non-executive Director
Dr F R Berry	Non-executive Director (appointed on 29 August 2003)
Mr R Zwolenski	Non-executive Director

Specified Executives

Mr P W Butler	General Manager
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Remuneration Policy

USCOM Limited has adopted a remuneration policy based on performance and contribution for determining the nature and amount of emoluments of board members and senior executives. The objective of these policies is to:

- Make USCOM an employer of choice
- Attract and retain the highest calibre personnel
- Encourage a culture of reward for effort and contribution
- Set incentives that reward short and medium term performance for the company as a whole
- Encourage professional and personal development

In addition to base salary, the company has a policy of rewarding extraordinary contribution to the growth of the company with the grant of an annual cash bonus and options under the company's share option plan.

In the case of senior executives, i.e. the Chairman, Chief Executive and General Manager, a recommendation for compensation review will be made by the Chairman to the board, which will conduct a performance review.

Directors' and executives' remuneration

Remuneration includes salaries, benefits and superannuation contributions in respect of the financial year.

	2004					Total Remuneration \$
	Directors' Base Fee \$	Base Salary \$	Superannuation \$	Other payments \$	Options \$	
Non-executive Director						
L H Fay	19,570 ¹		1,761		6,232	27,563
F R Berry	19,570 ¹		1,761		6,232	27,563
R Zwolenski	30,613		2,395		6,232	39,240
Executive Director						
R A Phillips		71,356	6,422	54,258 ²	6,232	138,268
G D Davey		71,356	6,422		6,232	84,010
Specified Executive						
P W Butler		128,440	11,560		44,127	184,127

¹ Remuneration paid since the listing date 10 December 2003.

² At the time of the IPO, the Chairman, Mr R A Phillips was entitled to a net payment of \$54,258 for services rendered.

Notes to the Financial Statements

For the financial year ended 30 June 2004

NOTE 29: DIRECTORS' AND EXECUTIVES' REMUNERATION (CONTINUED)

Number of options held by directors and specified executives

	Balance 1 July 2003 No.	Granted 20 October 2003 No.	Exercised No.	Balance 30 June 2004 No.	Total Exercisable 30 June 2004 No.
Non-executive Director					
L H Fay	-	40,000	-	40,000	-
F R Berry	-	40,000	-	40,000	-
R Zwolenski	-	40,000	-	40,000	-
Executive Director					
R A Phillips	-	40,000	-	40,000	-
G D Davey	-	40,000	-	40,000	-
Specified Executive					
P W Butler	-	150,000	-	150,000	-
Total	-	350,000	-	350,000	-

Number of shares held by directors and specified executives (including indirect interest)

	Balance 1 July 2003 No.	Received as Remuneration No.	Options Exercised No.	Net Change Other* No.	Balance 30 June 2004 No.
Non-executive Director					
L H Fay	750,000	-	-	(12,500)	737,500
F R Berry	-	-	-	100,000	100,000
R Zwolenski	100,000 ¹	-	-	25,000 ²	125,000
Executive Director					
R A Phillips	16,650,000 ³	-	-	100,000 ⁴	16,750,000
G D Davey	6,000,000	-	-	210,000 ⁵	6,210,000
Specified Executive					
P W Butler	300,000	-	-	-	300,000
Total	23,800,000	-	-	422,500	24,222,500

* Net change other refers to share purchased or sold during the financial year.

¹ Guardian Trust Australia Limited (as trustee of the Bell Medical Innovation Trust) holds shares in USCOM Limited. Mr Zwolenski holds units in this trust indirectly through Z-Link Pty Ltd Super Fund.

² Held by Z-Link Pty Ltd Super Fund, Mr Zwolenski is a trustee of this fund.

³ 60,000 of these ordinary shares are held by Northern Cardiac Sonography Pty Ltd. Mr Phillips is a Director and controller of this company.

⁴ Held by Northern Cardiac Sonography Pty Ltd as trustee for the Phillips Family Superannuation.

⁵ 180,000 of these ordinary shares are held by Davey Superannuation Nominees Pty Ltd. Mr Davey is a trustee, but not a beneficiary.



Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 30 to 51, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporation Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2004 and of the performance for the year ended on that date of the company and economic entity;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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



Rob Phillips
Director



Gary Davey
Director

Sydney, 16 September 2004

Independent Audit Report

To The Members of USCOM Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for USCOM Limited for the year ended 30 June 2004.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independent Audit Report

(continued)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of USCOM Limited is in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the year ended on that date, and
 - (ii) complying with Accounting Standards in Australia and the Corporation Regulations 2001; and
- (b) Other mandatory professional reporting requirements in Australia.



PKF
Chartered Accountants



Geoff Harris
Partner

Dated: 16 September 2004

Shareholder Information

Additional information required by Australian Stock Exchange Listing Rules is as follows. This information is current as at 30 August 2004.

Shareholding

(a) Distribution Schedules of Shareholder

Holdings Ranges	Holders	Ordinary shares	%
	No.	No.	
1-181	4	617	0.002
182-1,000	186	156,273	0.411
1,001-5,000	609	1,913,375	5.035
5,001-10,000	137	1,181,708	3.110
10,001-100,000	111	3,283,448	8.641
100,001-99,999,999,999	19	31,464,579	82.802
Total	1,066	38,000,000	100

(b) Security Classes

Classes	Ordinary shares
	No.
Fully Paid Ordinary Shares	9,075,000
Fully Paid Ordinary - Escrow 12 months ¹	3,197,500
Fully Paid Ordinary - Escrow 24 months ²	25,727,500
Total	38,000,000

¹ Voluntary escrow period ends on 10 December 2004

² Voluntary escrow period ends on 10 December 2005

(c) The number of shareholdings held in less than marketable parcels is 4.

(d) Substantial Shareholders

The names of the substantial shareholders listed in the holding company's register as at 30 August 2004 are:

Robert Allan Phillips	16,750,000
Gary Desmond Davey	6,219,000
Guardian Trust Australia Ltd <Bell Medical Innovation A/C>	3,300,000

(e) Voting Rights

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

Ordinary shares

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

Shareholder Information

(f) Top Twenty Registered Shareholders – Ordinary shares

Balance at 30-08-2004	Ordinary shares No.	%
Robert Allan Phillips	16,590,000	43.658
Gary Desmond Davey	6,039,000	15.892
Guardian Trust Australia Ltd <Bell Medical Innovation A/C>	3,300,000	8.684
Luke Hamlyn Fay	737,500	1.941
Das Menon	737,500	1.941
Matthew Gerard Hollier	737,500	1.941
Helen Marie Bragg	737,500	1.941
Jules Flach	700,000	1.842
Link traders (Aust) Pty Ltd	300,000	0.789
Paul William Butler	300,000	0.789
BB Nominees Pty Ltd	238,700	0.628
Walker Corporation Pty Ltd <Walker Corporation A/C>	200,000	0.526
Davey Superannuation nominees Pty Ltd <Super fund A/C>	180,000	0.474
Catholic Church Insurance Ltd	150,000	0.395
Huntley Investment Company Ltd	125,000	0.329
DRP Cartons (NSW) Pty Ltd	114,559	0.301
Hinona Pty Ltd <H Wallace Consultants SF A/C>	110,000	0.289
J P Morgan Nominees Australia Ltd	106,000	0.279
Francis Robert Berry	100,000	0.263
RBC Global services Australia Nominees Pty Ltd <BKCUST A/C>	100,000	0.263
Eagle Securities Ltd	100,000	0.263
Northern Cardiac Sonography Ltd <Phillips Family S/F A/C>	100,000	0.263
Pathold No 205 Pty Ltd	100,000	0.263
Total	31,903,259	83.956

Company Secretary

Mr Paul Butler.

Registered office and principal place of office

Level 7, 10 Loftus Street, Sydney NSW 2000

Telephone: (02) 9247 4144

Registers of securities are held at the following address

Registries Limited, Level 2, 28 Margaret Street, Sydney NSW 2000

Telephone: (02) 9290 9600

Stock Exchange Listing

Quotation has been granted for all the ordinary share of the company on all Member Exchanges of the Australian Stock Exchange Limited.

Unquoted securities

Options over unissued shares.

A total of 855,000 options are on issue. 200,000 options are on issue to five directors, 150,000 options are on issue to five members of advisory board and 505,000 options are on issue to ten employees under the USCOM Limited employee option plan.



Notes



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USCOM LTD
Ultrasonic Cardiac Output Monitors