# ANNUAL REPORT / 2011



Uscom

# CHAIRMANS LETTER

To fellow shareholders

In an environment of volatile market conditions, healthcare reforms and significant challenges which the company faced with the termination of its major distributor during fiscal 2011, Uscom has emerged a stronger and more focused organisation. We are now executing a totally revamped business model to build on our underwhelming sales results to date. 2011 has been a year of regrouping after the collapse of our relationship with Spacelabs, the exclusive distributor for all markets except Asia Pacific. Our poor financial results can largely be explained by this factor.

2012 is therefore the year of generating sound sales results after regrouping from this significant impact to the business. The board has been reconfigured & reinvigorated with my appointment in January 2011 and the addition of a new independent director, Jochen Bonitz. Our appointments are designed to lead the way for the development of a new global distribution focus which mitigates the risk of a single distributor and turns around the company's performance by a more professional and commercial focus to achieve growth and sustainability. The primary goal is to achieve a surge in sales activity which will produce a corresponding improvement in shareholder value. These things do not happen overnight as multiple new distributors need to be appointed and trained, and Uscom needs to improve its sales support and develop marketing programs to adequately assist them in the rollout of a new business model. The 3rd and 4th quarters of 2011 have been a time when most of these activities have been undertaken.

Importantly, the Company has spearheaded this new distribution approach with the appointment already of 6 new distributors in the North American market, 4 in Europe, 1 in South Africa, 1 in the Middle East and 2 in Latin America as well as enhancing its Asia Pacific distribution strategy with the appointment of a business development executive to drive sales results across this important high growth market.

In addition to laying these important distribution foundations we continue to leverage important technical, regulatory, reimbursement and related medical & scientific foundations which are being aligned to the implementation of the commercial distribution strategy. This scientific work is the main focus of the founder of the company and Chief Scientist, Mr Rob Phillips.

The Company is introducing what many in the medical profession would regard as a new concept in haemodynamics in the monitoring and management of the cardiac physiology of critical care patients. The Key Opinion Leaders (KOLs) who have supported us to date and new recruits we are adding to this esteemed group are located in many important geographies and their publications in world renowned medical journals continue to be seen as critical to securing broad acceptance by practitioners and end users.

A more commercially focused strategy in distribution must also take into account the environment in which the health care sector is operating and the austerity budgets that often compliment health care reform. It is therefore important to herald the significant cost advantages of what Uscom offers in helping hospital administrators and practitioners improve patient care at a lower cost to alternative procedures. We are therefore developing a sound medical economics analysis backed up by case studies to demonstrate the economic value that Uscom brings to the healthcare sector.

We continue to actively engage the market at tradeshows and symposiums and we are working up strategic relationships with buyer groups and hospital networks, leveraging our outstanding reference sites around the world. At the annual Med Assets Innovation & Technology Awards held in November 2010, a prestigious international event in the medical world, our USCOM 1A monitor was singled out as one of the top three devices "most likely to improve patient care and add efficiency to the recognised healthcare delivery process."

In revamping the overall direction of the company to achieve sales results we undertook a private placement in December along with an SPP and raised over $3 million. This will provide us with runway to execute these strategies described above over the course of the coming fiscal year to begin to generate sales revenue that will move us closer to break even position.

I'd like to take this opportunity to thank all our shareholders for the belief you have had in the company to date and the board and management of Uscom look forward to communicating to you the fruits of our labour over the year ahead as we turn this business into a world leader in the medical devices industry.

Thank you.

Phil Kiely
Executive Chairman
Uscom Ltd

# REVIEW OF OPERATIONS

- Capital: The Company completed a successful capital raise in January 2011 with $3.096m raised through a private placement and SPP. The funds will contribute to working capital and be used primarily to execute the global distribution plans to improve unit sales. Share trading was extremely thin with 1,099,690 shares transacted for $331,257 at an average price of 31 cents and a range of 20 to 42 cents.

- Global distribution model: The exclusive distribution agreement with Spacelabs terminated in December 2010. Pacific Medical Systems (PMS) continued to operate as a master distributor in Asia (excluding Japan and India). The US market continues to be targeted as the most important and dominant market and we have completely revamped the manner in which we are proposing to go to market. Predominantly it will be distributor led who have exclusive territories in defined regions. As well we are embarking on a tandem strategy to work with the Independent Integrated Networks (IDNs) which make up some of the largest hospital groups in the US. New distributors were appointed in North America during the first six months of the calendar year including Medical Dynamics, Provider Enterprises, Inspired Medical Systems, Bell Medical, Castor & Braemed (Canada). Also appointed were Genesys (UK), Prohisa (Spain), Vok Medical (Russia), Dutchmed ( Eastern Europe), Respiratory Health Care (South Africa). These distributors were selected after a review of their key contacts within hospitals and ability to drive revenues for the sale of U which would form a not insignificant component of their total revenues.

- Financials: Revenues for the year were $834,813 which is similar to the previous year. Cost of goods sold was also aligned with the previous year. The major reason the reported loss was 42% increase over the previous year is that the company expensed options granted to the incoming board members of $330,000 and there was an increase of $476,880 for sales and marketing costs over the previous year was booked to kick start our new global distribution model.

- Development: Research and Development continues to improve the monitor and its IP with progress made in transducer developments, general maintenance and database improvements, improved intuitive user interfaces, interfaces to EMR developments, portability. Partnership opportunities are also being explored for joint developments. The company continues to receive a R&D grant for work undertaken which in the financial year amounted to $344,896

- Personnel: Total staff at commencement of year: 12;  at end of year: 12
  Personnel hired were mainly in the sales and distribution area with the appointment of a North American sales manager, a clinical staff member to support training and new installations, a business development manager for Asia Pacific. These staff replaced outgoing staff in UK, US and Australia.

- Science: Much progress has been made to reduce the volumes of published papers and medical evidence to support the sales and marketing strategies. This has involved extracting key highlights of documented studies and distilling it into supportive representations by Uscom to address clinical needs. The company also released OXYCOM in the US during the year and also co-ordinated an emerging global study on the utility of Uscom in Paediatrics following the global Paediatric Critical Care conference in Sydney.

- Regulatory: Uscom has successfully completed the regulatory requirements for the major markets we intend selling into. With the exploration of new channel partners in Japan we are investigating renewing our permits there.

- Reimbursement: The Company is reviewing reimbursement codes in different territories to ensure these do not provide hurdles to successful sales campaigns.

- Prospects & Risks: Over 200 opportunities are logged into the Sales force system at the close of the year. This represents the strongest sales pipeline the company has had for some time. Securing such sales of Uscom monitors however in an increasingly difficult healthcare environment is made all the more difficult with pressure on capital budgets which can extend lead times. Whilst the clinical adoption is paramount and often reliant upon successful clinical evaluations and outcome studies, a successful closure rate can be impacted by these budgetary constraints. The company is focusing on health economics as well as innovative" lease to buy "arrangements as a means to counter such challenges.
  An additional risk is the strength of the Australian dollar. The company is being vigilant to adopt a soft hedging approach by only converting minimal funds from weak currency markets to Australia to pay for Australian expenses if and when required.

# CORPORATE GOVERNANCE STATEMENT

As from previous annual reports, Uscom is committed to continuing its high standards of corporate governance. Effective Corporate Governances aids the company to set and achieve its objectives. Once again, our reviewed Governance Statement for 2010/2011 outlines our policies and practices by reference to the principles of good corporate governance and Best Practice Recommendations published by the ASX Corporate Governance Council.

## Principle 1: Lay solid foundations for management and oversight

**Recommendation 1.1: Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**
The Board has adopted a charter that sets out the responsibilities reserved by the Board, those delegated to the Chief Executive Officer and those specific to the chairman.

**Recommendation 1.2: Disclose the process for evaluating the performance of senior executives.**
The Chief Executive Officer, Chief Financial Officer and General Manager attend the scheduled board meetings and present progress against Company goals and objectives. The board assesses performance against the goals and objectives on a regular basis at these meetings. The Company conducts annual performance appraisals of all employees.

**Recommendation 1.3: Provide the information indicated in the Guide to reporting on Principle 1.**
Performance evaluation for Senior Executives has taken place in the reporting period and it was in accordance with the process disclosed.

## Principle 2: Structure the board to add value

Uscom Ltd has the services of a Board with a wide range of professional experience in fields such as science, medicine, marketing and international business. Refer to Directors Report page 8.

**Recommendation 2.1: A majority of the board should be independent directors.**
The Board consists of four members, two of whom are Non-Executive Directors. The Company takes the view that the two 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. The Company's non-compliance with this recommendation is due to the small size and nature of the business.

**Recommendation 2.2: The chairperson should be an independent director.**
The Chairman of Uscom Ltd, Mr Phil Kiely provides executive consulting in the area of sales and marketing. The Company's non-compliance with this recommendation is based on small size and nature of the business and limiting expenditure is in the interests of stakeholders.

**Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.**
The chairperson is Mr Phil Kiely and Mr. Rob Phillips is acting Chief Executive Officer.

**Recommendation 2.4: 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 (four members) and that significant growth in the number of Directors is not envisaged in the medium term.

**Recommendation 2.5: Disclose the process for evaluating the performance of the board, its committees and individual directors.**
Directors performance is evaluated through their contribution and attendance at all Board meetings. Being a small Board (four members) all Directors are actively involved in the strategic planning and goal setting of the Company.

**Recommendation 2.6: Provide the information indicated in the Guide to reporting on principle 2.**

- The skills, experience and expertise relevant to the position of Director held by each director in office (Refer to Directors' Report)
- The names of the Directors considered by the Board to constitute Independent Directors and the Company's materiality threshold can be found in the Directors' Report.
- All Company Non-Executive Directors are considered independent, notwithstanding the existence of relationships stated in the Guide.
- Refer to the Directors' Report for the term of office held by each Director in office.

- The Company believes that a nomination committee is not necessary at this stage of the Company's development therefore does not hold nomination meetings.
- A statement detailing the procedure agreed by the Board for Directors to take independent professional advice at the expense of the Company can be found in the Remuneration Report.
- A formal performance evaluation for the Board, its committees and Directors has not taken place in the reporting period however performance is measured as described in 2.5.

## Principle 3: Promoting 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:**

- The practices necessary to maintain confidence in the Company's integrity.
- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
- 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 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.

For detailed Code of Conduct refer to Uscom Corporate Governance Documentation on the Company website.

**Recommendation 3.2: Establish a policy concerning trading in Company securities by Directors, Senior Executives and employees, and disclose the policy or a summary of that policy.**
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.

The policy is included in the Company's Code of Conduct. Refer to Uscom Corporate Governance documentation on the Company website.

**Recommendation 3.3: Provide the information indicated in the Guide to reporting on Principle 3.**
Refer to Uscom Corporate Governance Documentation on the Company website.

## Principle 4: Safeguard integrity in financial reporting

**Recommendation 4.1: Establish an audit committee.**
The Board has established an audit and risk committee.

**Recommendation 4.2: Structure the audit committee so that it consists of only non-executive directors; a majority of independent directors; an independent chairperson, who is not chairperson of the board; at least three members.**
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 committee is made up of two members with both of them being independent Directors and has an independent director as chairman. It was considered appropriate for the size of the Company. The audit and risk committee will meet at least three times per year.

**Recommendation 4.3: The audit committee should have a formal charter.**
The audit and risk committee operates according to a formal charter.

**Recommendation 4.4: Provide the information indicated in the Guide to reporting on Principle 4.**
The audit and risk committee charter is included in the Uscom Corporate Governance Documentation on the Company website.

## Principle 5: Make timely and balanced disclosure

**Recommendation 5.1: Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**
The Company has produced and adopted a disclosure policy, which has been communicated to all Directors, managers and employees.

Recommendation 5.2: Provide information indicated in the Guide to reporting on Principle 5.
Refer to the Uscom Corporate Governance documentation on the Company website.

## Principle 6: Respect the rights of shareholders

Recommendation 6.1: Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
Uscom Ltd 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 site, immediately after they are released to the ASX through the appropriate electronic publication procedure.

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.

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 ASX.

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.

Ample notice of this meeting will be provided. All documents and presentations delivered to the annual meeting will be posted immediately on the Company website.

Recommendation 6.2: Provide the information indicated in the Guide to reporting on Principle 6.
Refer to the Uscom Corporate Governance documentation on the Company website.

## Principle 7: Recognise and manage risk

Recommendation 7.1: Establish policies for the oversight and management of material business risks and disclose a summary of those policies.
The Company has appointed an audit and risk committee, which 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: Require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.
Management has reported to the board as to the effectiveness of the Company's management of its material business risk.

Recommendation 7.3: Disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
The Chief Executive Officer and the Chief Financial Officer, who supervise financial and accounting matters, are required to sign off on the Company's accounts, as recommended.

Recommendation 7.4: Provide the information indicated in the Guide to reporting on Principle 7.
Refer to audit and risk committee charter included in Uscom Corporate Governance on the Company website.

## Principle 8: Remunerate fairly and responsibly

Recommendation 8.1: 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.

Uscom Ltd has adopted a remuneration policy based on performance and contribution.

Recommendation 8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
For further information see Remuneration Report from pages 10 to 15.

The Directors present their report on Uscom Ltd and its Controlled Entity for the financial year ended 30 June 2011.

## Directors

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

| | |
|---|---|
| Mr P Kiely | Executive Chairman (Appointed on 22nd December 2010) |
| Mr R A Phillips | Executive Director |
| Mr B Rathie | Non-Executive Director |
| Mr J Bonitz | Non-Executive Director (Appointed on 4th January 2011) |
| Mr R Zwolenski | Non-Executive Director (Resigned on 22nd December 2010) |

## Directors' qualifications and experience

### Mr Phil Kiely

Mr Kiely is the Executive Chairman for Uscom Ltd since 10th of January 2011. Mr Kiely holds a Bachelor of Commerce/Law degree from the University of NSW.
Phil Kiely has over 25 years in the ICT sector working in leading global companies most recently establishing an investment company, Matrix Capital Corporation, which has developed and commercialised innovative product & services organisations. Prior to Matrix Phil spent seven years at Oracle Corporation, the world's largest database company. His last role at Oracle was as Vice President Oracle Online, Asia Pacific. Prior to joining Oracle, Phil was one of the pioneers of IT outsourcing in Australia. He held positions as General Manager, Continuum Australia later acquired by CSC and General Manager, Computations.

### Mr Rob Phillips

Rob Phillips is the founder of Uscom Ltd, the Chief Executive Officer, Executive Director and Chief Scientist of the Company. Rob has 8 years experience as Executive Chairman of the Company, having taken the Company to IPO in 2003, and has over 20 years in executive corporate management. The Company received the Frost and Sullivan Global Entropolis Award for the Emerging Medical Device Company of the Year in 2007. He has a Master of Philosophy in Medicine from The University of Queensland and is currently completing his PhD. He is an Australian Post Graduate Award recipient and was a finalist in the Time-CNN World Health and Medicine Technology Awards in 2004. Rob has pioneered novel clinical approaches to cardiovascular assessment having authored over 30 patents and patent applications and is an internationally recognised teacher and examiner in the field of echocardiography.

### Mr Bruce Rathie

Mr Rathie is a Non-Executive Director of Uscom Ltd. He holds degrees in law, commerce and business and has considerable experience as a lawyer having practiced as a solicitor and partner in a major Brisbane based legal firm and then as Senior in-house Counsel to Bell Resources Limited from 1980 to 1985 in aggregate. He studied for his MBA in Geneva and then went into investment banking in 1986 which subsequently took him to New York for over 2 years returning to Sydney in 1990. He spent the 90's in investment banking in Sydney, the last 5 years as a Director of Investment Banking at Salomon Brothers/ Salomon Smith Barney where he was responsible for the firm's activities/ roles in the industrial sector and the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). Mr Rathie currently holds board positions with a number of Australian companies.

During the past three years Mr Rathie held senior positions of the following listed companies:

| | | |
|---|---|---|
| • Compumedics Limited | Non-Executive Director | October 2004 – December 2006 |
| • DataDot Technology Limited | Non-Executive & Chairman | December 2006 – January 2009 & October 2009 - present |
| • Anteo Diagnostics Limited | Chairman and Non-Executive Director | July 2006 – August 2009 |
| • Calzada Limited | Non- Executive Director | April 2010 - present |
| • Mungana Goldmines Limited | Non- Executive Director | October 2010 - present |

Mr Rathie is a member of the Audit and Risk Committee.

Mr Jochen Bonitz
Mr Bonitz is a Non-Executive Director of Uscom Ltd and holds a Bachelor of Science degree from the University of NSW and a MBA from the Australian Graduate School of Management.
Mr Bonitz is a former Director at KPMG Corporate Finance with over 20 years experience in the technology sector spanning a career in programming, consulting and Mergers & Acquisitions advisory.
Having focused initially in the technical field and consulting at Logica and IBM, Mr Bonitz started and developed a communication company which he merged into Pacnet where he was then the CEO for the Australian subsidiary. He later worked with the Commonwealth Bank and at KPMG as a corporate M&A adviser with a specific focus on the ICT and telecoms sectors. Most recently he has been on the direction panel for the Federal Government's National Broadband Network (NBN).
Mr Bonitz is a member of the Audit and Risk Committee.

Mr Roman Zwolenski (Resigned on 22 December 2010)
Mr Zwolenski was a Non-Executive Director of Uscom Ltd until 22 December 2010. He has more than 12 years experience as a non-executive Director of a number of ASX listed biotech companies and was Chairman of Anadis Limited. After graduating from the University of New South Wales with a BSc in biosciences, Mr Zwolenski worked for 16 years in senior executive positions with international biomedical and pharmaceutical companies including Roche in Australia, the UK and Switzerland. This was followed by 8 years as the Chief Executive Officer of two ASX listed biotech companies.

During the past three years Mr Zwolenski held senior positions of the following listed companies:

| | | |
|---|---|---|
| • Ambri Ltd | Non-Executive Director | September 2003 – October 2004 |
| | Managing Director / Chief Executive Officer | October 2004 – May 2007 |
| • Anadis Ltd | Non-Executive Director | September 2002 – June 2008 |

Mr Zwolenski was a member of the Audit and Risk Committee until 22 December 2010.

## Company Secretary's qualifications and experience

Mr Daniel Fah
Mr Fah is the Company Secretary and Chief Financial Officer of Uscom Ltd. Mr Fah has extensive experience developed in a variety of industries in Australia, United Kingdom and North America and brings a wealth of commercial and international expertise to the Company's management team. He has a Bachelor of Business Studies Degree, and is a member of the Institute of Chartered Accountants of Australia.

## Meetings of Directors

| Directors | Board of Directors | | Audit and Risk Committee | |
|---|---|---|---|---|
| | Meetings held while a Director | No. of meetings attended | Meetings held while a Director | No. of meetings attended |
| R A Phillips | 16 | 16 | - | - |
| P Kiely * | 6 | 6 | - | - |
| B Rathie | 16 | 16 | 3 | 3 |
| J Bontiz ** | 6 | 6 | 2 | 2 |
| R Zwolenski *** | 10 | 10 | 2 | 2 |

* Appointed on 22nd December 2010
** Appointed on 4th January 2011
*** Resigned on 22nd December 2010

## Principal activities

Uscom Ltd is engaged in the development, design, manufacture and marketing of non-invasive cardiac monitoring devices. Uscom Ltd 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. Uscom Ltd owns 100% of Uscom, Inc. a company engaged in the sale and promotion of USCOM devices primarily in the United States.

## Operating result

The loss of the Consolidated Entity after providing for income tax amounted to $2,685,913 (2010: $1,757,677)

## Dividends

No dividends were declared or recommended for the financial year ended 30 June 2011.

## Significant changes in state of affairs

In December 2010, the exclusive distribution agreement for the in hospital sector with US based Spacelabs expired. Since then the Company has taken a new distribution approach with the appointment of 6 new distributors in the North American market, 4 in Europe, 1 in South Africa, 1 in the Middle East and 2 in Latin America as well as enhancing its Asia Pacific distribution strategy with the appointment of a business development executive to drive sales results across this important high growth market.

## Operating and financial review

The operating and financial review is stated on page 3 of this 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 Consolidated Entity, the results of those activities or the state of affairs of the Consolidated Entity in the ensuing or any subsequent financial year.

## Future developments

Other than the business activities described in the annual report and, in particular, those matters discussed in the Review of Operations, the Board is not aware of any likely developments in the foreseeable future which may materially impact on the financial outlook of the Consolidated Entity.

## Environmental issues

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

## Indemnifying officers

The Consolidated Entity 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 wilful breach of duty in relation to the Company.

## Proceedings on behalf of the Consolidated Entity

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

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

## Non-audit services

The Consolidated Entity may decide to employ the auditor on assignments additional to their audit duties where the auditor's expertise and experience with the Consolidated Entity are important.

During the year, $2,000 was paid to PKF Chartered Accountants & Business Advisers for non-audit services and $2,409 was paid to PKF California for tax consulting services provided to the Consolidated Entity.

Refer to note 25 of the financial statements on page 40 for details of auditors' remuneration.

The auditor's independence declaration under section 307C of the Corporation Act is set out on page 16 and forms part of the Directors' Report.

## Remuneration report

This remuneration report has been prepared by the Directors of Uscom Ltd to comply with the Corporations Act 2001 and the key management personnel (KMP) disclosures required under Australian Accounting Standards AASB 124 – Related Party Disclosures.

### *Key management personnel*

The following were key management personnel of the Entity at the start of the financial year to the date of this report unless otherwise stated:

Non-Executive Directors
Bruce Rathie, Non-Executive Director
Jochen Bonitz, Non-Executive Director (appointed on 4th January 2011)
Roman Zwolenski, Non-Executive Director (resigned on 22nd December 2010)

Executive Directors
Phill Kiely, Executive Chairman (appointed on 22nd December 2010)
Rob Phillips, Executive Director

Senior Executives
Daniel Fah, Chief Financial Officer, Company Secretary
Nick Schicht, General Manager
Ali Hughes-Jones, Marketing Executive, Europe (resigned on 10th December 2010)
Deb Johnson, VP Marketing and Global Distribution

In the Directors' opinion, there are no other Executives of the Entity.

## Remuneration policies

The Board is responsible for reviewing the remuneration policies and practices of the Consolidated Entity, including the compensation arrangements of Executive Directors, Non-Executive Directors and Senior Executives.

The Consolidated Entity has adopted remuneration policies based on performance and contribution for determining the nature and amount of emoluments of Board Member and Senior Executives. The objective of these policies is to:

- Make Uscom Ltd and its Consolidated Entity 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 Consolidated Entity
- Encourage professional and personal development

In the case of Senior Executives, a recommendation for compensation review will be made by the Chairman to the Board, which will conduct a performance review.

### *Non-Executive Directors*

The Board determines the Non-Executive Director remuneration by independent market data for comparative Companies.

As at the date of this report the maximum aggregate remuneration payable out of the funds of the Entity to Non-Executive Directors of the Consolidated Entity for their services as Directors including their service on a committee of Directors is $165,000 per annum.

Non-Executive Directors' base fees are presently $35,000 per annum. Non-Executive Directors do not receive any performance related remuneration, therefore they do not receive bonuses or non-cash benefits.

Non-Executive Directors' retirement payments are limited to compulsory employer superannuation.

### *Executive Directors and Senior Executives remuneration*

The Consolidated Entity's remuneration policy directs that the remuneration package appropriately reflects the Executives' duties and responsibilities and that remuneration levels attract and retain high calibre Executives with the skills necessary to successfully manage the Consolidated Entity's operations and achieve its strategic and financial objectives.

The total remuneration packages of Executive Directors and Senior Executives are on a salary basis. 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 discretionary cash bonus and options under the Consolidated Entity's Employee Share Option Plan.

Executives are also entitled to be paid for their reasonable travel, accommodation and other expenses incurred in consequence in the execution of duties.

Other than the Uscom Ltd Employee Share Option Plan, the Consolidated Entity does not provide any other non-cash benefits in lieu of base salary to Executives.

Remuneration packages for Executive Directors and Senior Executives generally consist of three components:
- Fixed remuneration which is made up of cash salary, salary sacrifice components and superannuation
- Short term incentives
- Long term incentives which include issuing options pursuant to the Uscom Ltd Employee Share Option Plan.

Fixed remuneration
Senior Executives who possess a high level of skill and experience are offered a competitive base salary. The performance of each Executive will be reviewed annually. Following the review, the Consolidated Entity may in its sole discretion increase the salary based on that Executive's performance, productivity and such other matters as the Board considers relevant. Superannuation contribution by the Consolidated Entity is limited to the statutory level at 9% of wages and salaries.

Short-term incentives
The remuneration of Uscom Ltd Senior Executives does not include any short-term incentive bonuses as part of their employment conditions. The Board may however approve discretionary bonuses to Executives in relation to certain milestones being achieved.

Long-term incentives
The Consolidated Entity has adopted a Share Option Plan for the benefit of Executive Directors, full-time and part-time staff members employed by the Consolidated Entity.

In accordance with the employee option plan, options issued under the employee option plan, have an exercise price based on 85% of the average ASX closing price for the 5 days prior to offer/acceptance of the options. Each option is issued for a period of 4 years, which vest 25% in tranches throughout the period.

An Executive Share Option Plan has been developed for approved participants.

Options were issued and vested to Mr Philip Kiely and Mr Jochen Bonitz at an EGM held on the 10th of February 2011 with the following fixed exercise prices:

1,100,000 at an exercise price of $0.75 per option
1,100,000 at an exercise price of $1.00 per option
1,100,000 at an exercise price of $2.00 per option
1,100,000 at an exercise price of $3.00 per option

The Board, at its discretion, may approve the issue of options under the Employee Share Option Plan and the Executive Share Option Plan to Senior Executives. The vesting of options issued may be conditional upon the achievement of performance hurdles determined by the Board from time to time. The Board may propose the issue of options to Directors, however this will be subject to shareholder approval at the Annual General Meeting.

Independent data from applicable sources may be requested by the Board to assess whether the performance hurdles have been met.

## *Service agreements*

The Consolidated Entity has entered into service agreement with the Chairman that
- Outlines the components of remuneration payable; and
- Specifies term and termination conditions.

Details of the service agreement are as follows:

Term
The Executive Employment Agreements are for a term of 3 years. The term of employment may be extended by the Consolidated Entity after the expiration of the initial 3 year term.

Each Executive may not, during the term of the employment agreement, perform work for any other person, corporation or business without the prior written consent of the Consolidated Entity.

Due to the small number of Executives the remuneration committee comprises the Board of Directors which is made up of two non Executive Directors. Reference is made to external market information in order to retain the most suitable Executives for meeting the entity's goals. Executive Directors are excluded from discussions on their remuneration. The remuneration of key Executives are not linked with the Consolidated Entity's performance as the focus is on retention of key Executives to ensure growth and traction in what is a new market. The Board of Directors will consider linking executive remuneration to Consolidated Entity's performance once the Consolidated Entity has sufficient market traction.

### Termination

Despite anything to the contrary in the agreement, the Consolidated Entity or the Executive may terminate the employment at any time by giving the other party 3 months notice in writing.

If either the Consolidated Entity or the Executive gives notice of termination, the Consolidated Entity may, at its discretion, choose to terminate the Executive's employment immediately or at any time during the notice period and pay the Executive an amount equal to the salary due to them for the residual period of notice at the time of termination.

Where the Executive gives less than 3 months written notice, the Consolidated Entity may withhold from the Executive's final payment an amount equal to the shortfall in the notice period.

The employment of each Executive may be terminated immediately without notice or payment in lieu in the event of any serious or persistent breach of the agreement, any serious misconduct or wilful neglect of duties, in the event of bankruptcy or any arrangement or compensation being made with creditors, on conviction of a criminal offence, permanent incapacity of the Executive or a consistent failure to carry out duties in a manner satisfactory to the Consolidated Entity.

## Directors and Executives remuneration

Remuneration includes salaries, benefits and superannuation contributions in respect of the financial year 2011.

| | Short term benefits | | | Post employment benefits | Equity | | Total remuneration |
|---|---|---|---|---|---|---|---|
| | Directors' Base Fee $ | Base salary $ | Other payments $ | Superannuation $ | Share-based payment $ | % of total | $ |
| **Non-Executive Director** | | | | | | | |
| R Zwolenski (to 22 Dec 2010) | 17,500 | - | - | 1,575 | - | - | 19,075 |
| B Rathie | 35,000 | - | - | 3,150 | - | - | 38,150 |
| J Bonitz (from 4 Jan 2011) | - | - | - | - | 29,440 | 100.0% | 29,440 |
| **Executive Director** | | | | | | | |
| R Phillips | - | 155,000 | - | 13,950 | - | - | 168,950 |
| P Kiely (from 22 Dec 2010) | - | - | 108,000(1) | - | 294,400 | 73.2% | 402,400 |
| **Senior Executive** | | | | | | | |
| D Fah | - | - | 65,994(2) | - | 1,297 | 1.9% | 67,291 |
| N Schicht | - | 157,900 | - | 14,211 | 2,594 | 1.5% | 174,705 |
| A Hughes-Jones (to 10 Dec 2010) | - | 43,080 | - | 23,101 | - | - | 66,181 |
| D Johnson | - | 143,174 | 13,412 | - | - | - | 156,586 |
| **Total** | 52,500 | 499,154 | 187,406 | 55,987 | 327,731 | - | 1,122,778 |

(1) Payments were made to Ecrucis Pty Ltd for the services provided by Mr Kiely.
(2) Payments were made to CFO Strategic Chartered Accountants for the services provided by Mr Fah.

## Directors and Executives remuneration

Remuneration includes salaries, benefits and superannuation contributions in respect of the financial year 2010.

| | Short term benefits | | | Post employment benefits | Equity | | Total remuneration |
|---|---|---|---|---|---|---|---|
| | Directors' Base Fee $ | Base salary $ | Other payments $ | Superannuation $ | Share-based payment $ | % of total | $ |
| **Non-Executive Director** | | | | | | | |
| R Zwolenski | 20,417 | - | - | 17,733[1] | 1,133 | 2.9% | 39,283 |
| B Rathie | 35,000 | - | - | 3,150 | 1,133 | 2.9% | 39,283 |
| **Executive Director** | | | | | | | |
| R Phillips | - | 155,000 | - | 13,950 | 1,133 | 0.7% | 170,083 |
| P Butler (to 31 Dec 2009) | - | 119,760 | - | 7,650 | 680 | 0.5% | 128,090 |
| **Senior Executive** | | | | | | | |
| D Fah | - | - | 51,367[2] | - | 3,463 | 6.3% | 54,830 |
| N Schicht | - | 158,400 | - | 14,211 | 7,605 | 4.2% | 180,216 |
| A Hughes-Jones | - | 99,395 | - | 13,338 | 566 | 0.5% | 113,299 |
| D Johnson (from 1 Feb 2010) | - | 63,761 | 5,804 | - | - | - | 69,585 |
| **Total** | 55,417 | 596,316 | 57,171 | 70,032 | 15,713 | - | 794,649 |

(1) $14,583 of Directors' fees was sacrificed to post employment benefit during FY2010.
(2) Payments were made to CFO Strategic Chartered Accountants for the services provided by Mr Fah.

## Employee Share Option Plan

The Consolidated Entity has adopted an Employee Share Option Plan for the benefit of Executive and Non-Executive Directors and full-time or part-time staff members employed by the Consolidated Entity. At the date of this Report the following options had been issued pursuant to the Employee Share Option Plan. Each option was issued for a period of 4 years and vest in tranches of 25% after 9 months, 12 months, 24 months and 36 months.

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 Employee Share Option Plan.

An Executive Share Option Plan has also been developed to provide approved participants further incentive in their performance for the Consolidated Entity and an opportunity to acquire an ownership interest in the Consolidated Entity.

## Number of options over ordinary shares held by Directors and Senior Executives

| | Balance | Granted | Exercised | Lapsed / Transferred out | Balance | Total vested |
|---|---|---|---|---|---|---|
| | 1 July 2010 No. | During FY2011 No. | During FY2011 No. | During FY2011 No. | 30 June 2011 No. | & exercisable 30 June 2011 No. |
| **Non-Executive Director** | | | | | | |
| R Zwolenski (to 22 Dec 2010) | 50,000 | - | - | (50,000) | - | - |
| B Rathie | 50,000 | - | - | (50,000) | - | - |
| J Bonitz | - | 400,000 | - | - | 400,000 | 400,000 |
| **Executive Director** | | | | | | |
| R Phillips | 50,000 | - | - | (50,000) | - | - |
| P Kiely | - | 4,000,000 | - | - | 4,000,000 | 4,000,000 |
| **Senior Executive** | | | | | | |
| D Fah | 50,000 | - | - | - | 50,000 | 37,500 |
| N Schicht | 130,000 | - | - | (30,000) | 100,000 | 75,000 |
| A Hughes-Jones (To 10 Dec 2010) | 25,000 | - | - | (25,000) | - | - |
| D Johnson | - | - | - | - | - | - |
| **Total** | 355,000 | 4,400,000 | - | (205,000) | 4,550,000 | 4,512,500 |

## Details of options outstanding as at end of year

| Holders No. | Grant date | Exercisable at 30 June 2011 % | Expiry date | 30 June 2011 Outstanding Option No. | Exercise Price $ | Issued date fair value $ |
|---|---|---|---|---|---|---|
| 7 (Employees) | 20 November 2008 | 75% | 20 November 2012 | 310,000 | 0.29 | 0.19 |
| 1 (Advisory committee) | 22 November 2008 | 100% | 12 November 2011 | 1,000,000 | 0.20 | 0.07 |
| 1 (Investor) | 17 December 2008 | 100% | 17 December 2013 | 2,000,000 | 0.375 | 0.12 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 0.75 | 0.11 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 1.00 | 0.09 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 2.00 | 0.06 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 3.00 | 0.04 |
| Total | | | | 7,710,000 | | |

Further details of the options are disclosed in note 18 of the financial statements.

## Number of shares held by Directors and Senior Executives (including indirect interest)

| | Balance 1 July 2010 No. | Received as Remuneration No. | Options Exercised No. | Net change Other* No. | Balance 30 June 2011 No. |
|---|---|---|---|---|---|
| **Non-Executive Director** | | | | | |
| R Zwolenski | 248,809 | - | - | (248,809) | -[1] |
| B Rathie | 68,809 | - | - | 25,000 | 93,809[2] |
| J Bonitz | - | - | - | - | - |
| **Executive Director** | | | | | |
| R Phillips | 16,979,968 | - | - | 16,765 | 16,996,733[3] |
| P Kiely | - | - | - | 333,333 | 333,333[4] |
| **Senior Executive** | | | | | |
| D Fah | 5,000 | - | - | - | 5,000[5] |
| N Schicht | 18,200 | - | - | - | 18,200[6] |
| A Hughes-Jones | - | - | - | - | - |
| D Johnson | - | - | - | 5,100 | 5,100 |
| Total | 17,320,786 | - | - | 131,389 | 17,452,175 |

*Net change other refers to share purchased or sold during the financial year, or cessation of categorisation as a Director or Senior Executive.
(1) Roman Zwolenski ceased to be key management personnel on 22 December 2010.

(2) All these ordinary shares are held by Katrat Investments Pty Ltd as trustee for the Rathie Family Trust.

(3) 382,924 of these ordinary shares are held by Northern Cardiac Sonography Pty Ltd as trustee for the Phillips Family Superannuation.

(4) All these ordinary shares are held by Philip and Cathryn Kiely as trustee for the Kiely Family Super fund.

(5) All these ordinary shares are held by Big Adventure Pty Ltd as trustee for Westend Investment Trust.

(6)10,000 of these ordinary shares are held by family associate.

This Director's report is signed in accordance with a resolution of the Board of Directors.

Rob Phillips

Director

Phil Kiely

Director

Sydney, 30 August 2011



Uscom

Chartered Accountants
& Business Advisers

Auditor's independence declaration to the directors of Uscom Limited

In accordance with section 307C of the Corporations Act 2001, as lead auditor for the audit of Uscom Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been:

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

This declaration is in regard to Uscom limited and the entity it controlled during the year.

PKF

PKF

John Bresolin
Partner

Sydney
Dated this 30th day of August 2011

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

# INCOME STATEMENT

For the financial year ended 30 June 2011

| | | Consolidated | |
|---|---|---|---|
| Continuing operations | | 2011 | 2010 |
| | Note | $ | $ |
| Revenue | 3 | 880,873 | 1,019,005 |
| Raw materials and consumables used | | (251,541) | (207,994) |
| Expenses from continuing activities, excluding finance costs | 4 | (3,660,141) | (2,939,217) |
| Finance costs | | - | - |
| **Loss before income tax credit** | | (3,030,809) | (2,128,206) |
| Income tax credit | 5 | 344,896 | 370,529 |
| **Loss after income tax credit** | 6 | (2,685,913) | (1,757,677) |
| Earnings per share (EPS) | | | |
| Basic earnings per share (cents per share) | 7 | (5.8) | (4.3) |
| Diluted earnings per share (cents per share) | 7 | (5.8) | (4.3) |

This Income Statement is to be read in conjunction with the attached notes.

# STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2011

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Loss for the year | (2,685,913) | (1,757,677) |
| **Other comprehensive income** | | |
| Foreign currency translation difference for foreign operations | 8,143 | (5,044) |
| Other comprehensive loss for the year | 8,143 | (5,044) |
| Total comprehensive loss for the year | (2,677,770) | (1,762,721) |
| Attributable to: | | |
| Owners of the Company | (2,677,770) | (1,762,721) |
| Total comprehensive loss for the year | (2,677,770) | (1,762,721) |

This Statement of Comprehensive Income is to be read in conjunction with the attached notes.

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

| | Note | Consolidated 2011 $ | 2010 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 2,125,156 | 1,376,044 |
| Trade and other receivables | 9 | 163,991 | 55,313 |
| Inventories | 10 | 213,882 | 329,456 |
| Tax asset | 11 | 344,896 | 370,529 |
| Other assets | 14 | 72,589 | 79,026 |
| Total current assets | | 2,920,514 | 2,210,368 |
| **Non-current assets** | | | |
| Plant and equipment | 12 | 93,289 | 95,564 |
| Intangible assets | 13 | 510,487 | 525,486 |
| Total non-current assets | | 603,776 | 621,050 |
| **Total assets** | | 3,524,290 | 2,831,418 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 148,273 | 170,971 |
| Short term provisions | 16 | 142,269 | 122,809 |
| Total current liabilities | | 290,542 | 293,780 |
| **Non-current liabilities** | | | |
| Long term provisions | 16 | 98,143 | 87,603 |
| Total non-current liabilities | | 98,143 | 87,603 |
| Total liabilities | | 388,685 | 381,383 |
| **Net assets** | | 3,135,605 | 2,450,035 |
| **Equity** | | | |
| Issued capital | 17 | 21,376,920 | 18,345,462 |
| Options reserve | 18 | 1,373,495 | 1,041,613 |
| Accumulated losses | 6 | (19,686,207) | (17,000,294) |
| Translation reserve | 19 | 71,397 | 63,254 |
| **Total equity** | | 3,135,605 | 2,450,035 |

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

# STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2011

| Consolidated | Issued Capital $ | Options Reserve $ | Accumulated Losses $ | Foreign Currency Translation Reserve $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2009** | 17,223,367 | 1,007,169 | (15,242,617) | 68,298 | 3,056,217 |
| Loss for the year | - | - | (1,757,677) | - | (1,757,677) |
| Other Comprehensive Income | - | - | - | (5,044) | (5,044) |
| Total Comprehensive Income for the year | - | - | (1,757,677) | (5,044) | (1,762,721) |
| Transactions with Owners in their capacity as owners | | | | | |
| Shares Issued | 1,135,357 | - | - | - | 1,135,357 |
| Transaction costs on Shares Issued | (13,262) | - | - | - | (13,262) |
| Share-based payments | - | 34,444 | - | - | 34,444 |
| **Balance at 30 June 2010** | 18,345,462 | 1,041,613 | (17,000,294) | 63,254 | 2,450,035 |
| Loss for the year | - | - | (2,685,913) | - | (2,685,913) |
| Other Comprehensive Income | - | - | - | 8,143 | 8,143 |
| Total Comprehensive Income for the year | - | - | (2,685,913) | 8,143 | (2,677,770) |
| Transactions with Owners in their capacity as owners | | | | | |
| Shares Issued | 3,096,132 | - | - | - | 3,096,132 |
| Transaction costs on Shares Issued | (64,674) | - | - | - | (64,674) |
| Share-based payments | - | 331,882 | - | - | 331,882 |
| **Balance at 30 June 2011** | 21,376,920 | 1,373,495 | (19,686,207) | 71,397 | 3,135,605 |

This Statement of Changes in Equity is to be read in conjunction with the attached notes.

# STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2011

| | Note | Consolidated 2011 $ | 2010 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 726,135 | 1,046,467 |
| Interest received | | 41,323 | 19,950 |
| Payments to suppliers and employees | | (3,337,048) | (3,113,653) |
| Grant and others received | | 4,737 | 162,142 |
| Income tax receipt | | 370,529 | 387,217 |
| Net cash used in operating activities | 20(b) | (2,194,324) | (1,497,877) |
| **Cash flows from investing activities** | | | |
| Purchase of patents and trademarks | | (65,941) | (117,091) |
| Purchase of investments | | - | - |
| Purchase of plant and equipment | | (22,082) | (39,804) |
| Net cash used in investing activities | | (88,023) | (156,895) |
| **Cash flows from financing activities** | | | |
| Issue of shares | 17 | 3,031,459 | 1,122,095 |
| Net cash provided by financing activities | | 3,031,459 | 1,122,095 |
| Net increase / (decrease) in cash held | | 749,112 | (532,677) |
| Cash and cash equivalents at the beginning of the year | | 1,372,843 | 1,906,246 |
| Exchange rate adjustment for opening balance | | 3,201 | 2,475 |
| Cash and cash equivalents at the end of the year | 20 (a) | 2,125,156 | 1,376,044 |

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

## Note 1: Adoption of new and revised accounting standards

As at the date of this report there are a number of new accounting standards and interpretations that have been issued but are not yet effective as detailed below:

Australian Accounting Standards

| AASB No. | Title | Issue Date | Operative Date (Annual reporting periods beginning on or after) |
|---|---|---|---|
| 9 | Financial Instruments | Dec 2010 | 1 Jan 2013 |
| 10 | Consolidation | Jun 2011 | 1 Jan 2013 |
| 11 | Joint Arrangements | Jun 2011 | 1 Jan 2013 |
| 12 | Disclosure of Interests in Other Entities | Jun 2011 | 1 Jan 2013 |
| 13 | Fair Value Measurement | Jun 2011 | 1 Jan 2013 |
| 1053 | Application of Tiers of Australian Accounting Standards | Jun 2010 | 1 Jul 2013 |
| 2009 – 12 | Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] | Dec 2009 | 1 Jan 2011 |
| 2010 – 2 | Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements | Jun 2010 | 1 Jul 2013 |
| 2010 – 4 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] | Jun 2010 | 1 Jul 2011 |
| 2010 – 5 | Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] | Oct 2010 | 1 Jan 2011 |
| 2010 – 6 | Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] | Nov 2010 | 1 Jul 2011 |
| 2010 – 7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] | Dec 2010 | 1 Jan 2013 |
| 2010 – 8 | Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] | Dec 2010 | 1 Jan 2012 |
| 2010 – 9 | Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] | Dec 2010 | 1 Jul 2011 |
| 2010 – 10 | Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] | Dec 2010 | 1 Jan 2013 |
| 2011 – 1 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] | May 2011 | 1 Jul 2011 |
| 2011 – 2 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054] | May 2011 | 1 Jul 2013 |

## Note 1: Adoption of new and revised accounting standards (continued)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the consolidated entity.

These Standards and Interpretations will be first applied in the financial statements of the consolidated entity that relates to the annual reporting period beginning after the effective date of each pronouncement.

### New Standards Adopted During the Year

The consolidated entity has adopted all of the new, revised or amending Accounting Standards issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

## Note 2: Statement of significant accounting policies

### (a) Introduction

The financial report covers the Consolidated Entity of Uscom Ltd and its Controlled Entity. Uscom Ltd is a listed public company, incorporated and domiciled in Australia.

### Operations and principal activities

Uscom Ltd is engaged in the development, design, manufacture and marketing of non-invasive cardiac monitoring devices. Uscom Ltd 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.

### Scope of financial statements

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

Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated Entity financial report conforms with International Financial Reporting Standards (IFRS).

### Going Concern

The consolidated entity incurred a total comprehensive loss of $2,677,770 during the year ended 30 June 2011 (2010: $1,762,721) and incurred operating cash outflows of $2,194,324 (2010: $1,497,877).

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity’s ability to continue as a going concern.

The consolidated entity's forecasts and projections for the next twelve months take account of possible changes in trading performance and indicate that in the directors' opinion the consolidated entity will be able to operate as a going concern.

As noted in the review of operations in the directors' report the consolidated entity terminated its agreement with Spacelabs its major distributor who had exclusive distributor rights for all markets with the exception of Asia Pacific. The consolidated entity was therefore required to identify and appoint new distributors in the second half of the financial year.

Note 2: Statement of significant accounting policies (continued)

The consolidated entity now has the following number of distributors in the following regions

- 6 new distributors in North America
- 4 new distributors in Europe
- 2 new distributors in Latin America
- 1 new distributor in Southern Africa
- 1 new distributor in the Middle East
- 1 in Asia Pacific

In addition to the successful signing of new distributors the consolidated entity has enhanced its Asia Pacific distribution strategy with the appointment of a business development executive to drive sales results across this important high growth potential market.

By appointing a wide variety of distributors the directors have attempted to reduce the risk of non performance and reliance on one party.

As with all new distribution agreements there is a time delay between signing on and delivering new sales as the consolidated entity needs to provide training and sales support. The consolidated entity is also assisting the distributors in designing and implementing various sales targeting strategies to specific regional markets.

The timing and sales volumes associated with these regional strategies and targets may vary from those forecast by management. As such the directors believe that this may give rise to material uncertainty and significant doubt in the timing of operating cash flows. Should the timing of operating cash flows be significantly different to those forecast the consolidated entity may need to seek alternative financing options to enable it to settle its liabilities as they fall due.

The Directors are satisfied that adequate plans and strategies have been formulated and will be adopted as required to allow the company to have sufficient cash to meet its obligations through to 31st of August 2012 (12 months from date on audit report). On this basis the financial report has been prepared on the going concern basis.

Should the company be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

Currency
The financial report is presented in Australian dollars, which is the Parent Company's functional and presentational currency.

Historical Cost Convention
This financial report has been prepared under the Historical Cost Convention.

Reporting period
The financial report is presented for the year ended 30 June 2011. The comparative reporting period was for the year ended 30 June 2010.

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

Registered office
Level 7, 10 Loftus Street, Sydney NSW 2000.

Authorisation of financial report
The financial report was authorised for issue on 30 August 2011 by the Directors.

(b) Overall policy
The principal accounting policies adopted by the Consolidated Entity are stated in order to assist in the general understanding of the financial report.

Note 2: Statement of significant accounting policies (continued)

(c) Significant judgment and key assumptions

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

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

(d) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Consolidated Entity becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the Entity. A financial liability is removed from the Statement of Financial Position when the obligation specified in the contract is discharged or cancelled or expires.

Upon initial recognition a financial asset or financial liability is designated as at fair value through Profit or Loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through Profit or Loss is recognised in the Income Statement.

Financial assets not measured at fair value comprise receivables and investment in subsidiary. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method.

Available-for-sale financial assets include other financial assets, comprising investments in subsidiaries, not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities comprise of trade and other payables, and borrowings and are measured at amortised cost using the effective interest method.

Trade accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectibility.

Financial assets, other than those at fair value through profit or loss, are reassessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is revered through profit and loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## Note 2: Statement of significant accounting policies (continued)

### (e) Principles of consolidation

A Controlled Entity is any entity Uscom Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of Controlled Entities is contained in note 22 to the financial statements. All Controlled Entities have a June financial year-end.

All inter-company balances and transactions between Entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of Subsidiaries have been changed where necessary to ensure consistencies with those polices applied by the Parent Entity.

On consolidation, the assets and liabilities of the Consolidated Entity's overseas operations are translated at exchange rates prevailing at the reporting dates. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and are recognised in income statement on disposal of the foreign operation.

### (f) Foreign currency transactions and balances

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

### (g) Revenue recognition

- Sale of goods

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer and when the other contractual obligations of the Entity are performed.

- Revenue from rendering of services

Rendering of services consists of training, repair and product maintenance supplied to customers. Revenue is recognised when contractual obligations are expired and services are provided.

- Interest revenue

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

- Government grants

Government grants revenue is recognised at fair value when there is reasonable assurance that the grant will be received and the grant conditions will be met.

### (h) Inventories

Inventories are measured at the lower of cost or net realisable value. Costs are assigned on the basis of weighted average costs. Cost comprises all costs of purchase and conversion and an appropriate proportion of fixed and variable overheads, net of settlement discounts. Overheads are applied on the basis of normal operative capacity. The costs are recognised when materials are delivered to the Consolidated Entity.

### (i) Property, plant and equipment

Property, plant and equipment are included at cost. Assets in plant and equipment are depreciated on diminishing value basis over their estimated useful lives covering a period of two to seven years.

On disposal of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss in the Income Statement.

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

| *Class Of Fixed Asset* | *Depreciation Rate* |
|---|---|
| - Plant & Equipment | 10% - 40% |
| - Office Furniture & Equipment | 15% |
| - Computer Software | 40% |
| - Low Value Pool | 37.5% |

## Note 2: Statement of significant accounting policies (continued)

### (j) Intangibles
Patents and Trademarks are valued in the financial statements at cost of acquisition less accumulated amortisation and are amortised on diminishing value basis at 12.5% per annum.

### (k) Impairment of assets
At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. In assessing value in use, the estimated future cash flows discounted to their present value using a pre-tax discount rate.

### (l) Leases
Lease of assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Consolidated Entity were classified as finance 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.

Leased assets are amortised on diminishing value basis over their estimated useful lives where it is likely that the Consolidated Entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern in which benefits are diminished.

Lease incentives under operating leases are recognised as liabilities. The incentives are recognised as a reduction of expenses on a straight line basis unless another systematic basis is more representative of the time pattern in which benefits are diminished.

### (m) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and at call deposits with banks or financial institutions.

### (n) Investments
Investments in Controlled Entities are carried at the lower of cost and recoverable amount.

### (o) Research & development expenditure
Research & development costs are charged to the Income Statement as incurred, or deferred where it is probable that sufficient future benefits will be derived so as to recover those deferred costs.

### (p) Foreign currency transactions and balances
Foreign currency transactions during the year are converted to Australian dollars at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance sheet 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 continuous operations as they arise.

### (q) Income tax
Income taxes are accounted for using the Balance Sheet liability method whereby:
- The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- Current and deferred tax is recognised as income or expenses except to the extent that the tax relates to equity items or to a business combination;
- A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

The charge for current income tax expense/credit is based on the profit or loss for the year adjusted for any non assessable or disallowed items. It is credited using tax rates that have been enacted or are substantively enacted by the reporting date.

## Note 2: Statement of significant accounting policies (continued)

Deferred tax is accounted for using the Balance Sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settle. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

### (r) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits and equity compensation benefits) which fall due wholly within 12 months after the end of the period in which employee services are rendered. They comprise wages, salaries, social security obligations, short-term compensation absences, profit sharing and bonuses payables within 12 months and non-mandatory benefits such as medical care, housing, car and service goods.

The provision for employee entitlements to wages, salaries and annual leave represents the amount that the Consolidated Entity has a present obligation to pay resulting from employee services provided up to reporting date. The provision has been calculated after taking into consideration estimated future increases in wages and salaries and past experience regarding staff departures and includes related on-costs.

The undiscounted amount of short-term benefits expected to be paid is recognised as an expense.

### (s) Long term employee benefits

Long term employee benefits include long-service leave, long-term disability benefits, deferred compensation and profit sharing and bonuses payable 12 months or more after the end of the period in which employee services are rendered.

Uscom Ltd has adopted an Employee Share Option Plan for the benefit of Executive and Non-Executive Directors and full-time or part-time staff members employed by the Consolidated Entity. Refer note 18 to the financial statements for details.

An Executive Share Option Plan has also been developed to provide approved participants further incentive in their performance for the Consolidated Entity and an opportunity to acquire an ownership interest in the Consolidated Entity.

### (t) Share-based payment arrangement

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share based payment transaction or as a liability if the goods and services were acquired in a cash settled share based payment transaction.

For equity-settled share based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted.

### (u) 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.

## Note 2: Statement of significant accounting policies (continued)

### (v) Receivables
Trade receivables and other receivables represent the principal amounts due at reporting date plus accrued interest and less, where applicable, any unearned income and provision for doubtful accounts. An estimated doubtful debt is made when collection of the full amount is no longer probable.

### (w) Contingent liabilities
A contingent loss is recognised as an expense and a liability if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred and, a reasonable estimate of the amount of the resulting loss can be made.

### (x) Warranties
Provision is made in respect of the Consolidated Entity's estimated liability on all products and services under warranty at reporting 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 Consolidated Entity's history of warranty claims.

### (y) Events after the reporting date
Assets and liabilities are adjusted for events incurring after the reporting date that provide evidence of conditions existing at the reporting date. Important after reporting date events which do not meet these criteria are disclosed in note 28 to the financial statements.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 3: Revenue** | | |
| **Operating revenue** | | |
| Sale of goods | 834,813 | 836,913 |
| **Non-operating revenue** | | |
| Interest received | 41,323 | 19,950 |
| Grants received - export market development grant | - | 160,907 |
| Grants received - VAT return | 1,555 | 1,235 |
| Miscellaneous income | 3,182 | - |
| Total other income | 46,060 | 182,092 |
| **Total revenues from continuing operations** | 880,873 | 1,019,005 |
| **Note 4: Expenses from continuing activities, excluding finance costs** | | |
| Depreciation and amortisation expenses | 103,412 | 105,147 |
| Impairment of patents | 11,731 | 55,678 |
| Employee benefits expense | 1,254,616 | 1,075,413 |
| Research and development expenses | 502,037 | 531,423 |
| Advertising and marketing expenses | 913,149 | 436,269 |
| Occupancy expenses | 153,683 | 143,307 |
| Auditors remuneration (audit) | 39,000 | 39,000 |
| Auditors remuneration (audit review) | 17,000 | 17,000 |
| Regulatory expenses | 70,424 | 76,739 |
| Bad debt expenses | - | 29,474 |
| Administrative expenses | 444,602 | 341,800 |
| Exchange losses | 150,487 | 87,967 |
| **Total expenses from continuing activities, excluding finance costs** | 3,660,141 | 2,939,217 |
| Operating lease expenses of $131,849 in 2011 (2010: $133,429) are included in occupancy expenses above | | |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **Note 5: Income tax credit** | | |
| Major components of income tax credit | | |
| Current income tax credit | 344,896 | 370,529 |
| Income tax credit | 344,896 | 370,529 |
| Reconciliation between income tax credit and prima facie tax on accounting loss | | |
| Accounting loss before income tax | 3,030,809 | 2,128,206 |
| Tax benefit at 30% in Australia, 15% in USA (2010: 30% in Australia) | 902,660 | 665,574 |
| Tax effect on non deductible expenses | (372,527) | (402,620) |
| Temporary differences | (19,611) | (15,517) |
| Deferred tax asset not brought to account | (510,522) | (247,437) |
| Research and development tax offset - current year | 344,896 | 370,529 |
| Income tax credit | 344,896 | 370,529 |

As at 30 June 2011, the Consolidated Entity had estimated unrecouped operating income tax losses of $13,832,400 (2010: $12,357,295). The benefit of these losses of $3,957,157 (2010: $3,474,467) has not been brought to account as realisation is not probable. The benefit will only be obtained if:

- The Consolidated Entity derives future assessable income of a nature and an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- The Consolidated Entity continues to comply with the conditions for deductibility imposed by the law;
- No changes in tax legislation adversely affect the Consolidated Entity in realising the benefit from the deduction for the losses.

| | 2011 | 2010 |
|---|---|---|
| **Note 6: Accumulated losses** | | |
| Accumulated losses at the beginning of the financial year | (17,000,294) | (15,242,617) |
| Net loss attributable to members of the Entity | (2,685,913) | (1,757,677) |
| Accumulated losses at the end of the financial year | (19,686,207 | (17,000,294) |
| **Note 7: Earnings per share** | | |
| Loss after tax used in calculation of basic and diluted EPS | (2,685,913) | (1,757,677) |
| | Number | Number |
| Weighted average number of ordinary shares during the year used in calculation of basic EPS | 46,103,168 | 41,347,880 |
| Weighted average number of options outstanding | 4,708,356 | 3,780,000 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS | 50,811,524 | 45,127,880 |
| Basic earnings per share (cents per share) | (5.8) | (4.3) |
| Diluted earnings per share (cents per share) | (5.8) | (4.3) |

The option in existence have an anti-dilutive effect on EPS, therefore there is no difference between basic earnings per share and diluted earnings per share as shown above. There have been no issues of ordinary shares between the reporting date and the date of this report.

| | 2011 | 2010 |
|---|---|---|
| **Note 8: Cash and cash equivalents** | | |
| Cash on hand | 185 | 250 |
| Bank: Cheque accounts | 747,600 | 537,187 |
| Bank: Cash management | 34,745 | 152,278 |
| Bank: Term deposits | 1,235,230 | 497,486 |
| Bank: Deposit at call | 107,396 | 188,843 |
| Total cash and cash equivalents | 2,125,156 | 1,376,044 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **Note 9: Trade and other receivables** | | |
| Current | | |
| Trade receivables | 163,991 | 55,313 |
| Total current receivables | 163,991 | 55,313 |
| Trade receivables are non-interest bearing and on an average of 45 day terms. Details of trade receivables due but not impaired are disclosed in note 21. | | |
| **Note 10: Inventories** | | |
| Current inventories at cost | | |
| Raw materials | 148,903 | 156,370 |
| Finished products | 64,979 | 173,086 |
| Total inventories | 213,882 | 329,456 |
| **Note 11: Tax assets** | | |
| Income tax credit | 344,896 | 370,529 |
| Total tax asset | 344,896 | 370,529 |
| **Note 12: Plant and equipment** | | |
| Plant and equipment at cost | 546,714 | 516,147 |
| Accumulated depreciation | (459,480) | (427,942) |
| | 87,234 | 88,205 |
| Office furniture and equipment at cost | 59,166 | 59,166 |
| Accumulated depreciation | (55,825) | (55,235) |
| | 3,341 | 3,931 |
| Computer software at cost | 22,120 | 22,120 |
| Accumulated depreciation | (20,981) | (20,221) |
| | 1,139 | 1,899 |
| Low value asset pool at cost | 31,726 | 30,798 |
| Accumulated depreciation | (30,151) | (29,269) |
| | 1,575 | 1,529 |
| Total plant and equipment | 93,289 | 95,564 |

| Movements in carrying amounts | Plant and equipment | Office furniture | Computer software | Low value asset pool |
|---|---|---|---|---|
| Useful life | 2-7 years $ | 2-7 years $ | 3 years $ | 3 years $ |
| **Consolidated Entity** | | | | |
| Carrying amount at 1 July 2010 | 88,205 | 3,931 | 1,899 | 1,529 |
| Additions | 31,071 | - | - | 928 |
| Disposals | - | - | - | - |
| Depreciation expense | (31,971) | (590) | (760) | (882) |
| Effects of foreign currency exchange differences | (71) | - | - | - |
| Carrying amount at 30 June 2011 | 87,234 | 3,341 | 1,139 | 1,575 |

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 13: Intangible assets** | | |
| Non-current | | |
| Patents at cost | 785,795 | 752,213 |
| Additions | 65,941 | 117,091 |
| Impairment | (12,232) | (83,509) |
| Accumulated amortisation | (329,017) | (260,309) |
| Carrying amount at 30 June 2011 | 510,487 | 525,486 |
| | | |
| Movements in carrying amounts | | |
| Carrying amount at 1 July 2010 | 525,486 | 539,178 |
| Additions | 65,941 | 117,091 |
| Amortisation | (69,209) | (75,105) |
| Impairment | (11,731) | (55,678) |
| Carrying amount at 30 June 2011 | 510,487 | 525,486 |

Intangible Assets comprise Intellectual Property in the form of Patents. The Patents have finite useful lives. The current amortisation charge in respect of Patents is included under Expenses from Continuing Activities in the Income Statement. An impairment charge of $11,731 has been recognised in the current year (2010: $55,678) in relation to overseas Patents and is recorded under Expenses from Continuing Activities.

| | 2011 $ | 2010 $ |
|---|---|---|
| **Note 14: Other current assets** | | |
| Current | | |
| GST receivable | 19,811 | 24,701 |
| Prepayments | 52,778 | 54,325 |
| Total other current assets | 72,589 | 79,026 |
| **Note 15: Trade and other payables** | | |
| Current | | |
| Trade payables | 54,387 | 92,241 |
| Sundry payables and accrued expenses | 62,051 | 45,115 |
| Employee related payables | 31,835 | 33,615 |
| Total payables | 148,273 | 170,971 |
| **Note 16: Provisions** | | |
| Short term | | |
| Provision for annual leave | 142,269 | 122,809 |
| | 142,269 | 122,809 |
| Long term | | |
| Provision for long service leave | 91,248 | 82,323 |
| Provision for warranties | 6,895 | 5,280 |
| | 98,143 | 87,603 |
| | | |
| (a) Aggregate employee benefits | 233,517 | 205,132 |
| | | |
| (b) Movement in employee benefits | | |
| Balance at beginning of the year | 205,132 | 239,075 |
| Additional provision | 98,264 | 117,603 |
| Amounts used | (69,879) | (151,546) |
| Balance at end of the year | 233,517 | 205,132 |
| | Number | Number |
| (c) Number of employees at year-end | 14 | 15 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **Note 17: Issued capital** | | |
| Issued capital | | |
| Fully paid ordinary shares | 21,376,920 | 18,345,462 |
| Total contributed equity | 21,376,920 | 18,345,462 |
| | | |
| Movement in issued capital | | |
| Shares on issue at the beginning of the year | 18,345,462 | 17,223,367 |
| 1,800,547 ordinary shares issued at 63 cents | - | 1,134,342 |
| Share issue costs | - | (13,262) |
| 3,500 ordinary shares issued at 29 cents | - | 1,015 |
| 9,437,835 ordinary shares issued at 30 cents | 2,831,350 | - |
| 882,606 ordinary shares issued at 30 cents | 264,782 | - |
| Share issue costs | (64,674) | - |
| Ordinary shares at the end of the year | 21,376,920 | 18,345,462 |
| | | |
| Fully paid ordinary shares | Number | Number |
| Ordinary shares at the beginning of the year | 41,804,047 | 40,000,000 |
| 1,800,547 ordinary shares issued by SPP | - | 1,800,547 |
| 3,500 ordinary shares issued by exercise of option | - | 3,500 |
| 9,437,835 ordinary shares issued by private placement | 9,437,835 | - |
| 882,606 ordinary shares issued by SPP | 882,606 | - |
| Total ordinary shares at the end of the year | 52,124,488 | 41,804,047 |

1,800,547 ordinary shares were issued by share purchase plan on 1 October 2009. 3,500 ordinary shares were issued by exercise of option on 1 March 2010. 9,437,835 ordinary shares were issued by private placement during December 2010 to April 2011. 882,606 ordinary shares were issued by share purchase plan on 18 February 2011. The Company's authorised share capital amounted to 52,124,488 ordinary shares of no par value.

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.

## Note 18: Share options

The Consolidated Entity has adopted an Employee Share Option Plan for the benefit of Executive and Non-Executive Directors and full-time or part-time staff members employed by the Consolidated Entity. At the date of this Report the following options had been issued pursuant to the Employee Share Option Plan. Each option was issued for a period of 4 years and vest in tranches of 25% after 9 months, 12 months, 24 months and 36 months. 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 Employee Share Option Plan.

An Executive Share Option Plan has also been developed to provide approved participants further incentive in their performance for the Company and an opportunity to acquire an ownership interest in the Company.

4,400,000 options were granted to two directors during the financial year.

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Effect of share-based payment transactions | | |
| Share Option Plan | | |
| Options reserve balance at the beginning of the year | 1,041,612 | 1,007,168 |
| Expenses arising from share-based payment transactions | 331,882 | 34,444 |
| Options reserve balance for Share Option Plan at the end of the year | 1,373,494 | 1,041,612 |
| | | |
| OSI Systems | | |
| Right to participate in options | 1 | 1 |
| Option reserve at the end of the year | 1,373,495 | 1,041,613 |



Uscom

## Note 18: Share options (continued)

| Movement during the financial year | Number of Options 2011 | Weighted average exercise price | Number of options 2010 | Weighted average exercise price |
|---|---|---|---|---|
| Opening number of options | 3,780,000 | 0.36 | 3,835,000 | 0.36 |
| Granted during the financial year – Directors Option Deed | 4,400,000 | 1.69 | - | - |
| Lapsed during the financial year | (470,000) | 0.65 | (51,500) | 0.41 |
| Exercised during the financial year | - | - | (3,500) | 0.29 |
| Closing number of options | 7,710,000 | 1.10 | 3,780,000 | 0.36 |

Details of options outstanding as at end of the year

| Holders No. | Grant date | Exercisable at 30 June 2011 | Expiry date | 30 June 2011 Outstanding Option | Exercise Price | Issued date fair value |
|---|---|---|---|---|---|---|
| | | % | | No. | $ | $ |
| 7 (Employees) | 20 November 2008 | 75% | 20 November 2012 | 310,000 | 0.29 | 0.19 |
| 1 (Advisory committee) | 22 November 2008 | 100% | 12 November 2011 | 1,000,000 | 0.20 | 0.07 |
| 1 (Investor) | 17 December 2008 | 100% | 17 December 2013 | 2,000,000 | 0.375 | 0.12 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 0.75 | 0.11 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 1.00 | 0.09 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 2.00 | 0.06 |
| 2 (Directors) | 25 February 2011 | 100% | 26 February 2016 | 1,100,000 | 3.00 | 0.04 |
| Total | | | | 7,710,000 | | |

### Fair value

Fair value was measured using Blackscholes and the inputs to it were as follows:

| | |
|---|---|
| Weighted average share price | Range from $0.36 to $1.69 |
| Exercise price | 310,000 at $0.29; 1,000,000 at $0.20; 2,000,000 at $0.375; 1,100,000 at $0.75; 1,100,000 at $1.00; 1,100,000 at $2.00; 1,100,000 at $3.00 |
| Option life | 3-5 years |
| Risk-free interest rate | 4.6% |
| Expected dividends | 0 |
| Expected volatility* | Range from 65% to 72% |

* Historical volatility has been the basis for determining the expected share price volatility as it is assumed that it is indicative of the future trade, which may not eventuate.

| | Consolidated 2011 | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 19: Translation reserve** | | |
| Opening balance | 63,254 | 68,298 |
| Translation of financial statements of foreign Controlled Entity | 8,143 | (5,044) |
| Closing balance | 71,397 | 63,254 |
| **Note 20: Cash flow information** | | |
| (a) Reconciliation of cash | | |
| Cash at bank and on hand | 2,125,156 | 1,376,044 |
| Total cash at end of year | 2,125,156 | 1,376,044 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **Note 20: Cash flow information (continued)** | | |
| (b) Reconciliation of cash flow from operations to loss from continuing operations after income tax | | |
| Loss from continuing operations after income tax | (2,685,913) | (1,757,677) |
| Non cash flows in loss from continuing operations | | |
| Depreciation | 34,203 | 30,042 |
| Amortisation | 69,209 | 75,105 |
| Impairment of patents | 11,731 | 55,678 |
| Bad debts write off | - | 29,474 |
| Options reserve | 331,882 | 34,444 |
| Translation reserve | 8,213 | (5,002) |
| (Increase)/Decrease in assets | | |
| Trade debtors | (108,678) | 212,125 |
| Inventories | 105,657 | (108,924) |
| Prepayments | 1,547 | (1,182) |
| Income tax | 25,633 | 16,688 |
| GST assets | 4,890 | 9,276 |
| Increase/(Decrease) in liabilities | | |
| Trade payables | (37,854) | (50,576) |
| Sundry payables and accrued expenses | 16,936 | 1,576 |
| Employee related payables | (1,780) | (4,227) |
| Employee provisions | 28,385 | (33,943) |
| Other provisions | 1,615 | (754) |
| Net cash used in operating activities | (2,194,324) | (1,497,877) |

## Note 21: Financial instruments

### (a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria of recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

### (b) Capital risk management

The Consolidated Entity manages its capital to ensure that companies in the Consolidated Entity are able to continue as a going concern. The capital structure of the Entity consists of cash and cash equivalents (note 8 on page 30) and equity attributable to equity holders of the Parent, comprising issued capital (note 17 on page 33), and accumulated losses (note 6 on page 30).

### (c) Financial instruments

At 30 June 2011, there were no outstanding contracts.

### (d) Financial risk management objectives

The Consolidated Entity's principal financial instruments are cash and term deposit accounts. Its financial instruments risk is with interest rate risk on its cash and term deposits and liquidity risk for its term deposits.

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Board is updated monthly by management as to the amounts of funds available to the Consolidated Entity from either cash in the bank or term deposits, and continually monitors interest rate movements.

### (e) Foreign currency risk management

The Consolidated Entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Consolidated Entity does not have any forward foreign exchange contracts as at 30 June 2011 and is exposed to foreign currency risk on sales and purchases dominated in a currency other than Australian dollars.

The currencies given rise to this risk is primarily the US Dollar, Euro and British Pound. The Consolidated Entity incurs costs in US Dollars for its operations which provide a natural hedge for a portion of income denominated in US Dollars.

## Note 21: Financial instruments (continued)

The carrying amount of the Consolidated Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | US$ | US$ |
| Cash | 90,224 | 793,924 |
| Current trade debtors | 146,410 | 47,100 |
| Current trade creditors | 10,434 | 24,042 |
| | € | € |
| Cash | 45,555 | 48,559 |
| Current trade debtors | 9,150 | - |
| Current trade creditors | 5,891 | - |
| | £ | £ |
| Current trade debtors | 10,200 | - |

### (f) Foreign currency sensitivity

The Consolidated Entity is mainly exposed to exchange rate risks arising from movements in the US Dollar, Euro and British Pound against the Australian Dollar, and the US Dollar from the translation of the operations of its Controlled Entity.

The analysis below demonstrates the impact of a 10% movement of US Dollar and a 5% movement of Euro and British Pound rates against the Australian Dollar with all other variables held constant. 10% and 5% are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Profit/Loss - increase 10% (US$) and 5% (€) & (£) | (74,279) | (73,219) |
| - decrease 10% (US$) and 5% (€) & (£) | 74,279 | 73,219 |

### (g) Interest rate risk management

The Consolidated Entity does not have any external loans or borrowings as at 30 June 2011 and is not exposed to interest rate risks related to debt.

The Consolidated Entity is exposed to interest rate risk as companies in the Consolidated Entity hold cash and term deposits at both fixed and floating interest rates. The risk is managed by the Consolidated Entity maintaining an appropriate mix between both rates.

Management continually monitor its cash requirements through forecasts and cash flow projections and move funds between fixed and variable interest instruments to hold the maximum amount possible in instruments which pay the greater rate of interest. This limits the amount of risk associated with setting a policy on the mix of funds to be held in fixed or variable interest rate instruments.

### (h) Interest rate sensitivity

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Profit/Loss - increase 100 basis points | 4,132 | 1,995 |
| - decrease 100 basis points | (4,132) | (1,995) |

## Note 21: Financial instruments (continued)

### (i) Credit risk management

Credit risk represents the loss that would be recognised if counterparties defaulted on its contractual obligations. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually. Ongoing credit evaluation is also performed on the financial condition of accounts receivable.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics; because the current major counterparties are alliance distributors and public hospitals with approved funds available prior to purchases under most circumstances.

The credit risk on financial assets of the Consolidated Entity have been recognised on the Statement of Financial Position, is the carrying amount, net of any allowance for doubtful debts. Credit risk in respect of cash and deposit is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

| | Consolidated | |
|---|---|---|
| Past due but not impaired | 2011 | 2010 |
| | $ | $ |
| 0 - 45 days | 10,662 | - |
| 46 – 90 days | - | - |
| Over 90 days | - | 51 |
| Total | 10,662 | 51 |

No bad debt was written off during the year (2010: $29,474). There was no doubtful debt provision as at 30 June 2011 (2010: Nil).

Management considers the above debts to be recoverable based on the continuing work with the parties involved and the progress they have made in the market, and the recognised long lead time associated with selling capital item, hence no impairment allowance is required.

### (j) Liquidity risk management

The objective for managing liquidity risk is to ensure the business has sufficient working capital or access to working capital as and when required.

The Consolidated Entity limits its exposure to liquidity risk by holding the majority of its assets in cash or term deposits which can be quickly converted to cash if required.

The carrying amounts of financial assets and financial liabilities recorded at cost approximate their fair values.

The following table details the Consolidated Entity's remaining contractual maturity for its non-derivative financial assets and liabilities. The table has been drawn up based on the undiscounted cash flows expected to be received/paid by the Consolidated Entity.

## Note 21: Financial instruments (continued)

| Consolidated | Weighted Average effective interest Rate % | Floating interest $ | Fixed interest rate maturing Within 1 year $ | 1 to 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Financial assets | | | | | | |
| Cash | 4.9 | 889,926 | 1,235,230 | - | - | 2,125,156 |
| Trade receivables | | - | - | - | 163,991 | 163,991 |
| Other receivables | - | - | - | - | 19,811 | 19,811 |
| Total financial assets | | 889,926 | 1,235,230 | - | 183,802 | 2,308,958 |
| Financial liabilities | | | | | | |
| Trade creditors | | - | - | - | 54,387 | 54,387 |
| Payables | | - | - | - | 93,886 | 93,886 |
| Total financial liabilities | | - | - | - | 148,273 | 148,273 |
| **Net financial assets** | | 889,926 | 1,235,230 | - | 35,529 | 2,160,685 |
| 2010 | | | | | | |
| Financial assets | | | | | | |
| Cash | 3.7 | 878,558 | 469,319 | 28,167 | - | 1,376,044 |
| Trade receivables | | - | - | - | 55,313 | 55,313 |
| Other receivables | - | - | - | - | 24,701 | 24,701 |
| Total financial assets | | 878,558 | 469,319 | 28,167 | 80,014 | 1,456,058 |
| Financial liabilities | | | | | | |
| Trade creditors | | - | - | - | 92,241 | 92,241 |
| Payables | | - | - | - | 78,730 | 78,730 |
| Total financial liabilities | | - | - | - | 170,971 | 170,971 |
| **Net financial assets** | | 878,558 | 469,319 | 28,167 | (90,957) | 1,285,087 |

| Reconciliation of net financial assets to net assets | 2011 $ | 2010 $ |
|---|---|---|
| Net financial assets as above | 2,160,685 | 1,285,087 |
| Non financial assets and liabilities | | |
| Current tax receivable | 344,896 | 370,529 |
| Inventories | 213,882 | 329,456 |
| Prepayments | 52,778 | 54,325 |
| Plant and equipment | 93,289 | 95,564 |
| Intangible assets | 510,487 | 525,486 |
| Provisions | (240,412) | (210,412) |
| **Net assets per Statement of Financial Position** | 3,135,605 | 2,450,035 |

## Note 22: Related party disclosures

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

**Parent and Controlled Entity**
**Parent Entity**
Significant investments in subsidiaries: Uscom, Inc.
Country of subsidiary incorporation: U.S.A
Proportion of ownership interest: 100%
**Consolidated**
The Parent and Ultimate Parent Entity is Uscom Ltd.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 22: Related party disclosures (continued)** | | |
| **Transactions between related parties** | | |
| **Other related parties** | | |
| CFO Strategic Chartered Accountants | | |
| As a Company Secretary and Chief Financial Officer of Uscom Ltd, Mr Fah provides services to the Company through CFO Strategic Chartered Accountants. | | |
| Services rendered | 65,994 | 51,367 |
| Ecrucis Pty Limited | | |
| As a Director of Uscom Ltd, Mr Phil Kiely provides services to the Company through Ecrucis Pty Limited. | | |
| Services rendered | 108,000 | - |
| 3 Pools Pty Limited | | |
| Rent received from 3 Pools Pty Limited, a company owned by Mr Jochen Bonitz who is a director of Uscom Limited. | 3,182 | - |

**Key management personnel**
The following were key management personnel of the Consolidated Entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Non-Executive Directors**
Roman Zwolenski, Non-Executive Director (ceased to be a Director on 22nd December 2010)
Bruce Rathie, Non-Executive Director
Jochen Bonitz, Non-Executive Director (commenced on 4th January 2011)
**Executive Directors**
Rob Phillips, Executive Director, Chief Executive Officer
Phil Kiely, Executive Chairman (commenced on 22nd December 2010)
**Senior Executives**
Daniel Fah, Chief Financial Officer, Company Secretary
Nick Schicht, General Manager
Ali Hughes-Jones, Marketing Executive, Europe (ceased on 10th December 2010)
Deb Johnson, VP Marketing and Global Distribution

For further remuneration information of key management personnel refer to the remuneration report in the Directors' report on pages 10 to 15.

The aggregate compensation made to Directors and other members of key management personnel of the Company and the Consolidated Entity is set out below:

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Short-term employee benefits | 551,654 | 651,733 |
| Post-employment benefits | 55,987 | 70,032 |
| Other payments | 187,406 | 57,171 |
| Share-based payment | 327,731 | 15,713 |
| **Total key management personnel remuneration** | 1,122,778 | 794,649 |

| | Parent | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 23: Parent entity information** | | |
| Set out below is the supplementary information about the parent entity. | | |
| **Statement of comprehensive income** | | |
| Loss after income tax credit | (2,702,672) | (1,708,012) |
| Total comprehensive loss | (2,702,672) | (1,708,012) |
| **Statement of financial position** | | |
| Total current assets | 2,870,703 | 2,188,604 |
| Total assets | 3,445,954 | 2,810,256 |
| Total current liabilities | 269,424 | 304,934 |
| Total liabilities | 367,567 | 392,537 |
| **Equity** | | |
| Contributed equity | 21,376,920 | 18,345,462 |
| Options reserve | 1,373,495 | 1,041,613 |
| Accumulated losses | (19,672,028) | (16,969,356) |
| Total equity | 3,078,387 | 2,417,719 |

**Contingent liabilities**
The parent entity had no contingent liabilities as at 30 June 2011 and 30 June 2010.

**Capital commitments – Property, plant and equipment**
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2011 and 30 June 2010.

**Significant accounting policies**
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **Note 24: Commitments** | | |
| **Operating lease commitments** | | |
| Operating commitments represent payments due for office rentals and have an average term from 18 to 30 months. | | |
| Less than 1 year | 123,337 | 118,594 |
| Between 1 and 5 years | 64,136 | 187,473 |
| **Total operating commitments** | 187,473 | 306,067 |
| **Note 25: Auditors' remuneration** | | |
| **Remuneration of PKF East Coast Practice for** | | |
| Audit of financial report | 39,000 | 39,000 |
| Review of financial report | 17,000 | 17,000 |
| Non-audit services | 2,000 | 2,000 |
| **Remuneration of PKF California for** | | |
| Tax consulting services | 2,409 | 6,981 |
| **Total auditors' remuneration** | 60,409 | 64,981 |

## Note 26: Operating segments

**Segment information**
The Consolidated Entity operates in the global health and medical products industry.

The Consolidated Entity sells a single product, the A1 monitor. Geographical segment reporting is therefore the appropriate method of reporting operating segments.

Globally the Company has five geographic sales and distribution segments as shown below. For each segment, the CEO and CFO review internal management reports on at least a monthly basis.

## Note 26: Operating segments (continued)

The largest customer group which operates in the USA, Europe, and Australia accounts for 42% of the total sales revenue. The businesses 2nd largest customer accounts for over 35% of the total sales revenues and operates exclusively in Asia.

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

*Accounting policies*

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 2 and accounting standard AASB 8 Operating Segments which requires a 'Management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in no change to the reportable segments as operating segments continue to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which is the Board of Directors.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of inventories, property, plant and equipment and intangible assets. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are not allocated. Segment liabilities consist primarily of trade and other creditors, employee benefits and provisions for warranties. Segment assets and liabilities do not include deferred income taxes.

| | Australia | Asia | USA | Europe | Other region | Unallocated | Eliminated | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | | $ | $ | $ |
| 2011 | | | | | | | | |
| Sales to external customers | 715 | 291,963 | 444,875 | 87,026 | 10,234 | - | - | 834,813 |
| Other revenues | 44,505 | - | - | 1,555 | - | - | - | 46,060 |
| Total segment revenues | 45,220 | 291,963 | 444,875 | 88,581 | 10,234 | - | - | 880,873 |
| Segment expenses | 326 | 87,133 | 1,012,180 | 282,815 | 6,870 | 3,220,747 | (698,389) | 3,911,682 |
| Segment result | 44,894 | 204,830 | (567,305) | (194,234) | 3,364 | (3,220,747) | 698,389 | (3,030,809) |
| Income tax credit | 344,896 | - | - | - | - | - | - | 344,896 |
| Consolidated loss from ordinary activities after income tax credit | | | | | | | | (2,685,913) |
| Segment assets | 381,660 | - | 254,744 | 206,445 | - | 2,710,777 | (29,336) | 3,524,290 |
| Segment liabilities | 396,903 | - | 21,118 | - | - | - | (29,336) | 388,685 |
| Acquisition of property, plant and equipment and intangibles | 36,595 | 12,231 | 8,961 | 40,153 | - | - | - | 97,940 |
| Impairment of patents | - | 11,731 | - | - | - | - | - | 11,731 |
| Depreciation and amortisation | 44,804 | 500 | 25,386 | 25,223 | - | 7,499 | - | 103,412 |

## Note 26: Operating segments (continued)

| | Australia $ | Asia $ | USA $ | Europe $ | Unallocated $ | Eliminated $ | Consolidated $ |
|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | |
| Sales to external customers | 22,710 | 307,721 | 477,048 | 29,434 | - | - | 836,913 |
| Other revenues | 19,950 | - | - | 1,235 | 160,907 | - | 182,092 |
| Total segment revenues | 42,660 | 307,721 | 477,048 | 30,669 | 160,907 | - | 1,019,005 |
| Segment expenses | 5,817 | 94,259 | 557,862 | 259,172 | 2,460,513 | (230,412) | 3,147,211 |
| Segment result | 36,843 | 213,462 | (80,814) | (228,503) | (2,299,606) | 230,412 | (2,128,206) |
| Income tax credit | 370,529 | - | - | - | - | - | 370,529 |
| Consolidated loss from ordinary activities after income tax credit | | | | | | | (1,757,677) |
| Segment assets | 505,256 | - | 243,760 | 191,515 | 1,920,786 | (29,899) | 2,831,418 |
| Segment liabilities | 392,534 | - | 18,748 | - | - | (29,899) | 381,383 |
| Acquisition of property, plant and equipment and intangibles | 44,123 | 23,318 | 38,361 | 49,599 | - | - | 155,401 |
| Impairment of patents | - | 55,678 | - | - | - | - | 55,678 |
| Depreciation and amortisation | 42,042 | 10,860 | 25,072 | 22,968 | 4,205 | - | 105,147 |

## Note 27: Contingencies

There were no contingencies as at 30 June 2011.

## Note 28: 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 Consolidated Entity, the results of those activities or the state of affairs of the Consolidated Entity in the ensuing or any subsequent financial year.

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
- having regard to the disclosures made regarding going concern in note 2 to the financial statements there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

| | |
|---|---|
| Rob Phillips | Phil Kiely |
| Director | Director |

Sydney, 30 August 2011

Chartered Accountants
& Business Advisers

To the members of Uscom Limited

## Report on the Financial Report

We have audited the accompanying financial report of Uscom Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of USCOM Limited (the company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

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

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

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

*Independence*

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

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PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

PKF

Chartered Accountants
& Business Advisers

*Opinion*

In our opinion:

(a) the financial report of Uscom Ltd and the consolidated entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the financial report, which indicates that the consolidated entity incurred a total comprehensive loss of $2,677,770 during the year ended 30 June 2011 and, as of that date, the consolidated entity incurred net operating cash outflows of $2,194,324 for the year. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Uscom Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001.*

PKF

PKF

J. Bresol

John Bresolin
Partner

Sydney
30 August 2011

# SHAREHOLDER INFORMATION

Additional information required by Australian Stock Exchange Listing Rules is as follows. This information is current as at 31 July 2011.

(a) Distribution Schedules of Shareholder

| Holdings Ranges | Holders Number | Ordinary shares Number | % |
|---|---|---|---|
| 1 – 1,000 | 113 | 81,208 | 0.156 |
| 1,001 – 5,000 | 222 | 660,218 | 1.267 |
| 5,001 – 10,000 | 78 | 625,339 | 1.200 |
| 10,001 – 100,000 | 133 | 4,745,180 | 9.103 |
| 100,001 – 99,999,999,999 | 46 | 46,012,543 | 88.274 |
| Total | 592 | 52,124,488 | 100 |

There were 198 holders of less than a marketable parcel of 232,021 ordinary shares.

(b) Class of shares and voting rights

All shares are 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.

(c) Substantial shareholders

The names of the substantial shareholders listed in the holding company's register as at 31 July 2011 are:

| | |
|---|---|
| Robert Allan Phillips | 16,996,733 |
| Gary Desmond Davey | 6,219,000 |
| Bell Potter Nominees Ltd | 2,124,836 |
| JP Morgan Nominees Australia | 2,004,000 |
| Invia Custodian Pty Limited | 1,688,118 |

(d) Twenty largest registered holders – ordinary shares

| Balance as at 31 July 2011 | Ordinary shares Number | % |
|---|---|---|
| Robert Allan Phillips | 16,996,733 | 32.61% |
| Gary Desmond Davey | 6,219,000 | 11.93% |
| Bell Potter Nominees Ltd <BB Nominees A/C> | 2,124,836 | 4.08% |
| JP Morgan Nominees Australia <Cash Income A/C> | 2,004,000 | 3.84% |
| Invia Custodian Pty Limited <Riverbel Family No 3 A/C> | 1,688,118 | 3.24% |
| DRP Cartons (NSW) Pty Ltd <DRP Cartons (NSW) PL S/F A/C> | 1,453,801 | 2.79% |
| Hinona Pty Ltd <H Wallace Consultant S/F A/C> | 1,222,159 | 2.34% |
| Arinya Investments Pty Ltd | 1,050,000 | 2.01% |
| Belfort Investment Advisors Ltd | 1,000,000 | 1.92% |
| Liddel Group Ltd | 1,000,000 | 1.92% |
| Stream Group Aust Pty Ltd | 954,111 | 1.83% |
| Mr Alister John Forsyth | 768,809 | 1.47% |
| Mr Rutherford James Browne & Mrs Sheba Elizabeth Marjorie Browne | 691,792 | 1.33% |
| Bannaby Investments Pty Ltd | 666,667 | 1.28% |
| Gailforce Marketing & PR Pty Ltd <Hale Agency S/F A/C> | 553,809 | 1.06% |
| Apollan Pty Ltd | 547,700 | 1.05% |
| DRP Cartons (NSW) Pty Ltd | 507,876 | 0.97% |
| ABN AMRO Clearing Sydney <Custodian A/C> | 500,030 | 0.96% |
| Jules Flach | 500,000 | 0.96% |
| Ross Planning Pty Ltd <S Alston Superannuation A/C> | 451,269 | 0.87% |
| Total | 40,900,710 | 78.46% |

### Registered office and principal place of office
Level 7, 10 Loftus Street
Sydney NSW 2000 Australia
Tel: 02 9247 4144
Fax: 02 9247 8157

### Company Secretary
Daniel Fah

### Registers of securities
Boardroom Pty Limited

Level 7, 207 Kent Street
Sydney NSW 2000 Australia

GPO Box 3993
Sydney NSW 2001 Australia

Tel: 1300 737 760
Fax: 1300 653 459
www.boardroomlimited.com.au

### Stock exchange listing
Quotation has been granted for 52,124,488 ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

### Unquoted securities
Options over unissued shares
A total of 7,710,000 options over ordinary shares are on issue. 2,000,000 options are on issue to OSI System. 4,400,000 options are on issue to two Directors, 1,000,000 options are on issue to a member of advisory board and 310,000 options are on issue to seven employees under the Uscom Ltd Employee Share Option Plan.