# Atos Wellness Limited

## (formerly Medec Limited)

ABN 85 100 531 191

and

Controlled Entities

# 2008

# ANNUAL FINANCIAL REPORT

# INDEX

## CORPORATE INFORMATION

This annual report covers both Atos Wellness Limited as an individual entity and the consolidated entity comprising Atos Wellness Pte Ltd and controlled entities.

The presentation currency is Australian dollars.

DIRECTORS

Gordon T Getley Chairman

Giulio D Cimetta

Ananda Rajah

John H Darling

COMPANY SECRETARY

Ian E Gregory

REGISTERED OFFICE

22 Letchworth Centre Avenue
Salter Point
Western Australia 6152

Tel: +61 (08) 9450 7411
Fax: +61 (08) 9450 7422

ACN: 100 531 191

STOCK EXCHANGE

The company's shares are listed on the ASX Limited

CODE: ATW

The company's shares are listed on the Berlin-Bremen Stock Exchange TICKER SYMBOL: MZW

GERMAN SECURITIES CODE NUMBER : 726156

WEBSITE [www.atoswellness.com.au](http://www.atoswellness.com.au)

SHARE REGISTER

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Tel: (08) 9315 2333
Fax: (08) 9315 2233

e-mail: registrar@securitytransfer.com.au

AUDITORS

Grant Thornton (WA) Partnership
10 Kings Park Road

West Perth WA 6005

BANKERS

Westpac Banking Corporation
109 St Georges Terrace
Perth WA

National Australia Bank Ltd

West Perth WA

SOLICITORS

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

## DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2008.

**Directors**

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

Gordon Getley

Giulio Cimetta

Chris Fairman (Resigned 27 February 2008)

Ananda Rajah (Appointed 27 February 2008)

John Darling (Appointed 8 May 2008)

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

**Company Secretary**

The following person held the position of company secretary at the end of the financial year:

Ian Gregory — Bachelor of Business, FCPA, FCIS, MAICD. Ian was appointed as Company Secretary of Atos Wellness Ltd on 12 December 2007. He has over 25 years experience in the provision of company secretarial and business administration services in a variety of industries, including exploration, mining, mineral processing, oil and gas, banking, insurance and aquaculture. Ian is a consulting Company Secretary and provides services to a number of listed and private companies.

Ian was a Company Secretary of the Iluka Resources Limited Group for 6 years and prior to that the Company Secretary of IBJ Australia Bank Limited, the Australian operations of the Industrial Bank of Japan for 12 years. He was also Company Secretary of the Griffin Coal Mining group of companies for 4 years.

Ian is the immediate Past Chairman of the Western Australian Branch Council of Chartered Secretaries Australia.

**Principal Activities**

The principal activities of the consolidated group during the financial year were:

- Manufacture of health care products
- distribution and marketing of health care products;
- operation of franchise distribution system
- operation of total health care & wellness centres

The following significant changes in the nature of the principal activities occurred during the financial year:

- During the year, Medec Australia Pty Ltd was disposed, following a management buy-out.

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

**Operating Results**

The consolidated loss of the consolidated group after providing for income tax and eliminating minority equity interests amounted to $2,783,066.

**Dividends Paid or Recommended**

No dividends have been paid or declared during the period and no dividend is recommended by the Directors.

**Review of Operations**

The results for the year ended 30 June 2008 include the operations from:

- Atos Wellness Pte Ltd for the full financial year.
- Atos Wellness Limited (formerly Medec Limited) was the legal parent entity for the full financial year. Due to the reverse acquisition, the company was accounted for as a subsidiary of Atos Wellness Pte Ltd from 1 January 2008. Accordingly, the results of Atos Wellness Limited and its legal subsidiaries prior to 1 January 2008 are not reflected in the consolidated results.
- Bodycure Deutschland GmbH from 1 January 2008.
- Body Contours Pte Ltd from 1 January 2008.
- Medec Systems GmbH from 1 January 2008.
- Atos Consumer Products Pte Ltd, Slimcare Studio Pte Ltd, Slimline Studio Pte Ltd and Inahamani Pte Ltd from 1 January 2008.

- Inspired Life Bentley joint venture commencing from May 2008.

Bodycure Deutschland GmbH, a German based weight management franchise operation was divested 51% to Mr Lothar Neff and 49% to Atos Wellness Pte Ltd. The business operates as a branch of Atos Wellness Pte Ltd in Singapore.

Medec Australia Pty Ltd (formerly Athlegen Pty Ltd) was sold to Stephen Falkiner, the CEO of this subsidiary, in December 2007 for $10 following a management buy-out. The company was considered a non-core business and was loss making. The disposal occurred prior to the reverse acquisition on 1 January 2008. Accordingly, the loss on disposal appears only in the parent entity results.

The operations of Inspired Life Medec Health Centre, a total health care centre in Bentley did not perform well due to the departure of our general manager, Shawn Murphy. The situation improved from May 2008 when a joint venture was formed with the Sol group. The financial year 2008/2009 is expected to result in improved profitability under a revised marketing and management structure and a strong control over costs.

**Significant Changes in State of Affairs**

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

i. On 31 January 2008, the parent entity acquired 100% of the legal subsidiary Atos Wellness Pte Ltd, a company incorporated in Singapore with effect from 1 January 2008 through the issue of 97,656,250 fully paid ordinary shares. This transaction has been accounted for as a reverse acquisition.

ii. In January 2008, Medec Limited changed its name to Atos Wellness Limited to reflect the changed structure following completion of the Atos Wellness Pte Ltd acquisition. The acquisition included the acquisition of Atos Consumer Products Pte Ltd, Slimcare Studio Pte Ltd, Slimline Studio Pte Ltd and Inahamani Pte Ltd. The cash consideration for each of these companies was Singapore $1 each to since the vendors Ananda Rajah and Pathma Ayadurai accepted 97,656,250 Atos Wellness Limited shares. The restructure helped to ensure an increase of approximately $9 million additional turnover for the group together with about 150 trained staff in the wellness services sector.

iii. In April 2008 a branch office of Atos Wellness Pte Ltd (Singapore) was opened in Vienna, the first in Europe to do market testing. This branch is expected to do well in the 2008/09 financial year.

iv. In June 2008 Bodycure Deutschland Gmbh was divested to Lothar Neff 51% and Atos Wellness Pte Ltd 49% (Vienna branch). The management felt that it would be better to manage the European operations out of Vienna than through Singapore or Australia.

Changes in controlled entities and divisions:

i. Purchase of 100% of Atos Wellness Pte Ltd, a company incorporated in Singapore, which operates in the wellness industry for $3,627,664 comprising 97,626,250 ordinary shares.

ii. Purchase of 100% of Atos Consumer Products Pte Ltd, a company incorporated in Singapore, which operates in the wellness industry for $1.

iii. Purchase of 100% of Slimcare Studio Pte Ltd, a company incorporated in Singapore, which operates in the wellness industry for $1.

iv. Purchase of 100% of Slimline Studio Pte Ltd, a company incorporated in Singapore, which operates in the wellness industry for $1.

v. Purchase of 100% of Inahamani Pte Ltd, a company incorporated in Singapore, which operates in the wellness industry for $1.

**After Balance Date Events**

On 4 August 2008, the Group issued 1,250,000 fully paid ordinary shares at an issue price of $0.06 in consideration for investor relations services provided to the Group. The value of the services provided was $75,000. The shares have been placed in voluntary escrow until 31 July 2009.

On 21 September 2008, Atos Wellness Pte Ltd ("Atos") entered into a contract to acquire 40% of the issued capital of Bionic Care GmbH for an initial payment of €120,000. The remainder of the total purchase price of €800,000 will be paid out of the net profits of the company. Should the company achieve €1 million profit before taxes in 2010 Atos will pay an additional €400,000 in March 2011 and should the company achieve €1 million profit before taxes in 2011 Atos will pay an additional €400,000 in March 2012.

On 7 October 2008, the Group issued 3,300,000 fully paid ordinary shares at an issue price of $0.06 pursuant to a convertible loan agreement between the company and United Auto Co Pte Ltd. On the same day, the Group issued 2,066,667 fully paid ordinary shares at an issued price of $0.06 to provide funding for working capital. The shares have been placed in voluntary escrow until 2 September 2009 and a holding lock has been placed on these shares.

**Future Developments, Prospects and Business Strategies**

The likely developments in the operations of the Consolidated Group and the expected results of those operations in future financial years are to develop the company's new strategy and to consolidate existing markets and develop our core business of providing wellness services and products. Refer to the Review of Operations for further information.

**Environmental Issues**

The consolidated group's operations are not subject to significant environmental regulation under the law of the Commonwealth or State, Germany or Singapore.

**Information on Directors**

| | | |
|---|---|---|
| **Gordon T Getley** | — | **Non-Executive Chairman (appointed April 2004)** |
| Experience | — | Has over 30 years experience in the insurance and financial advisory industry as one of the largest AMP general agencies and has held the position of national president of the AMP Agents' Association and national president of the Life Underwriters Association. He has sound practical experience in managing medium sized organizations and negotiating with senior management and government departments. He is chairman of an Australian resource company, Rusina Mining NL and director of Access West Developments Ltd, a property development company and Kinloch Resources Ltd. |
| Interest in Shares and Options | — | 253,511 Ordinary Shares in Atos Wellness Limited |
| Directorships held in other listed entities | — | Rusina Mining NL; Access West Developments Ltd; |

| | | |
|---|---|---|
| **Giulio D Cimetta** | — | **Non-Executive Director** |
| Qualifications | — | Bachelor of Business in Accounting at Western Australia Institute of Technology |
| Experience | — | Giulio Cimetta graduated from the Western Australia Institute of Technology in 1980 with a Bachelor of Business in Accounting. He has been involved in the accounting industry for more than 20 years.<br>After working in different sectors of the profession, he became a partner in a successful accounting firm. He then proceeded to establish his own private practice in 1991 – specialising in providing tax, business and strategic planning advice to a variety of clients throughout Australia, Asia and the United Kingdom. |
| Interest in Shares and Options | — | 1,232,501 Ordinary Shares in Atos Wellness Limited |
| Directorships held in other listed entities | — | None |

| | | |
|---|---|---|
| **Chris E Fairman** | — | **Non-Executive Director** (Resigned 27 February 2008) |
| Qualifications | — | FCPA, FCSA |
| Experience | — | A Fellow of CPA Australia, a Fellow of Chartered Secretaries Australia, with over twenty years experience in finance and general management in industry. His experience covers senior financial management, capital raisings, and commercialisation of technology based products, with extensive liaison with various government bodies and participated in the Caterpillar Dealer Executive Program. |
| Interest in Shares and Options | — | None |
| Directorships held in other listed entities | — | None |

| | | |
|---|---|---|
| **Ananda Rajah** | — | **Chief Executive Officer** (Appointed 27 February 2008) |
| Qualifications | — | Bachelor of Medicinal Chemistry (hons) at Northwest London University |
| Experience | — | Mr Ananda Rajah studied Medicinal Chemistry at the University of Northwest London from 1979 – 1983 and graduated with an honours degree. In 1984 he started Atos which grew over the last 25 years to become the Atos group including Body Contours which he founded in 1997, Atos Wellness Pte Ltd and Inahamani Pte Ltd with a combined staff of more than 350 employees. |
| Interest in Shares and Options | — | 97,553,101 Ordinary Shares in Atos Wellness Limited |
| Directorships held in other listed entities | — | None |

| | | |
|---|---|---|
| **John H Darling** | — | **Non-Executive Director** (Appointed 8 May 2008) |
| Qualifications | — | LLB |
| Experience | — | With over 33 years in international economics, corporate law as a solicitor of the Supreme Court of Victoria, John is currently the chairman of the Darling Group – an intellectual property firm specialising in strategic partnerships, investment, alliances and collaborations worldwide. For 20 years John has served local governments, chaired the planning committee in Woollahra and was deputy mayor in the late 1980's. He is also a director of VueStar Technologies Pte Ltd, LionStar IP Pte Ltd and Rainforest Foundation Ltd and has also assisted several charities including St Lukes Hospital Foundation, Totally Active Kids and Lord Taverners (Australia). |
| Interest in Shares and Options | — | None |
| Directorships held in other listed entities | — | None |

## REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each key management person of Atos Wellness Limited, and for the executives receiving the highest remuneration.

### Remuneration policy

The full Board, in its capacity as the Remuneration Committee, is responsible for determining and reviewing the remuneration of the directors, chief executive officer and the executive officers and reviewing the employees share option plan. The remuneration structure for executive directors, including executive officers and group executives of subsidiary companies, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future.

Each of the directors receives a fixed fee for their services as directors. In accordance with best practice corporate governance, the structure of non executive director and executive remuneration is separate and distinct.

The former acting CEO, Bernard Wee received a salary for his executive services.

The employment contract of the current CEO, Mr Ananda Rajah, includes provision for the issue of options subject to meeting minimum performance criteria and shareholder approval. The performance clause provides for the issue of 3 million options at various prices subject to achieving a profit target of $2 million EBITDA for the year ending 30 June 2009.

There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

The directors and executives based in Australia receive a superannuation guarantee contribution required by law, which is currently 9% and do not receive any other retirement benefits, except as disclosed. Some individuals have chosen to sacrifice part of their salary and fees towards superannuation. Upon retirement executive directors and executives are paid employee benefit entitlements accrued to date of entitlement.

Since the Company is a relatively newly listed Company with a small number of directors and executives, the Company is not yet at a stage where a detailed policy on remuneration has been established. However, the Company will consider implementing a more formal policy as the Company grows and the Board considers such a policy warranted.

## DIRECTORS' REPORT

The consolidated entity employs a small number of executives. Remuneration levels for executives are competitively set to attract the most qualified and experienced individuals, in the context of prevailing market conditions at the relevant time.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 November 2004 when shareholders approved an aggregate remuneration of $150,000 per year which made allowance for additional directors when deemed necessary.

**Key Management Personnel Remuneration**

**2008**

| Key Management Person | Short-term Benefits | | | Post-employment Benefits | Share-based Payment | | Total | Performance Related |
|---|---|---|---|---|---|---|---|---|
| | Directors Fees | Salary and commission | Non-cash benefits | Super-annuation | Equity | Options | Total | |
| | $ | $ | $ | $ | $ | $ | $ | % |
| G.T. Getley | 40,000 | - | - | 3,600 | - | - | 43,600 | - |
| G.D. Cimetta | 10,000 | 22,000 | - | 2,700 | - | - | 34,700 | - |
| C. Fairman | 20,000 | - | - | 1,800 | - | - | 21,800 | - |
| J Darling | 5,000 | - | - | 450 | - | - | 5,450 | - |
| A.Rajah | - | 5,108 | - | | - | - | 5,108 | - |
| P Tulsidas | - | 146,964 | 7,783 | 4,178 | - | - | 158,925 | 36.6% |
| B Wee | - | 124,567 | - | - | - | - | 124,567 | - |
| P Ananda | - | 62,262 | - | - | - | - | 62,262 | - |
| P Wee | - | 57,672 | 1,012 | 3,218 | - | - | 61,902 | 73.6% |
| L Halvorson | - | 60,904 | - | - | - | - | 60,904 | - |
| | 75,000 | 479,477 | 8,795 | 15,946 | - | - | 579,218 | - |

**2007**

| Key Management Person | Short-term Benefits | | | Post-employment Benefits | Share-based Payment | | Total | Performance Related |
|---|---|---|---|---|---|---|---|---|
| | Directors Fees | Salary and commission | Non-cash benefits | Super-annuation | Equity | Options | Total | |
| | $ | $ | $ | $ | $ | $ | $ | % |
| G.T. Getley | 40,000 | - | - | 3,600 | - | - | 43,600 | - |
| J.A. Plattner | 24,395 | 156,392 | - | 14,450 | - | - | 195,237 | - |
| G.D. Cimetta | 10,000 | 20,000 | - | 2,700 | - | - | 32,700 | - |
| C. Fairman | 5,851 | - | - | 527 | - | - | 6,378 | - |
| A.Rajah | 9,780 | - | - | - | - | - | 9,780 | - |
| L.A.Halvorson | - | 122,004 | - | 10,980 | 10,890 | - | 143,874 | - |
| D. Huang | - | 72,500 | - | 6,525 | - | - | 79,025 | - |
| S.Falkiner | - | 70,979 | - | 3,953 | - | - | 74,932 | - |
| S. Murphy | - | 64,615 | - | 5,815 | - | - | 70,430 | - |
| J. Ohayon | - | 49,518 | - | 4,457 | - | - | 53,975 | - |
| | 90,026 | 556,008 | - | 53,007 | 10,890 | - | 709,931 | |

DIRECTORS' REPORT

The performance related remuneration comprises commissions paid on sales of products and services.

**Meetings of Directors**

During the financial year, 5 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| | Directors' Meetings | |
|---|---|---|
| | **Number eligible to attend** | **Number attended** |
| Gordon Getley | 5 | 5 |
| Giulio Cimetta | 5 | 5 |
| Chris Fairman | 3 | 3 |
| Ananda Rajah | 2 | 2 |
| John Darling | 1 | 1 |

**Indemnifying Officers or Auditor**

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has indemnified the directors and officers 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 or officer of the company and has paid insurance premium for directors' and officers' liability insurance coverage in a controlled entity during the year. The amount of premiums paid during the year was $25,000.

**Options**

At the date of this report, there were nil unissued shares under options (2007: Nil).

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

**Non-audit Services**

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

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2008:

| | $ |
|---|---|
| Taxation services | 9,330 |
| Other | 3,000 |
| | 12,330 |

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 10.

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

Ananda Rajah, Director

Dated this 1st day of December 2008

Grant Thornton

**Grant Thornton (WA) Partnership**
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## AUDITOR'S INDEPENDENCE DECLARATION

## TO THE DIRECTORS OF ATOS WELLNESS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Atos Wellness Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON (WA) Partnership
Chartered Accountants

M J Hillgrove
Partner
Perth, 2 December 2008

## INCOME STATEMENTS FOR YEAR ENDED 30 JUNE 2008

| | Note | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent 2008 $ | Parent 2007 $ |
|---|---|---|---|---|---|
| Revenue | 2 | 19,126,899 | 3,261,435 | 216,414 | 505,511 |
| Changes in inventories of finished goods and work in progress | | (233,640) | 356,422 | - | - |
| Raw materials and consumables used | | (3,447,143) | (1,352,944) | - | - |
| Employee benefits expense | | (8,781,431) | (963,730) | (277,060) | (97,079) |
| Depreciation and amortisation expense | | (1,124,346) | (72,939) | - | - |
| Finance costs | | (306,815) | (43,978) | (190,832) | (144,648) |
| Impairment of goodwill | | (870,563) | - | - | - |
| Impairment of receivables | | (207,045) | - | - | - |
| Fair value of financial liability | | - | - | - | 465,030 |
| Rent and occupancy costs | | (1,975,904) | (270,349) | (2,935) | - |
| Selling & marketing | | (3,293,557) | (86,783) | - | - |
| Loss on disposal of investments in controlled entities | | (232,230) | - | (3,471,384) | - |
| Share of net loss of joint venture entities | | (9,407) | - | (9,407) | - |
| Impairment of investments in controlled entities | | - | - | (3,623,866) | (3,714,313) |
| Other expenses | | (1,096,617) | (312,718) | (209,390) | (276,716) |
| Profit/(Loss) before income tax | 3 | (2,451,799) | 514,416 | (7,568,460) | (3,262,215) |
| Income tax (expense) / benefit | 4 | (178,621) | (229,719) | - | (478,480) |
| Profit/(Loss) for the year | | (2,630,420) | 284,697 | (7,568,460) | (3,740,695) |
| Profit attributable to minority equity interest | | (152,646) | - | - | - |
| Profit(Loss) attributable to members of the parent entity | | (2,783,066) | 284,697 | (7,568,460) | (3,740,695) |
| Basic (loss)/earnings per share (cents per shares) | | (2.34) | 0.39 | | |
| Diluted (loss)/earnings per share (cents per share) | | (2.34) | 0.39 | | |

*The accompanying notes form part of these financial statements.*

## BALANCE SHEETS AS AT 30 JUNE 2008

| | Note | Consolidated Group | | Parent | |
|---|---|---|---|---|---|
| | | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 9 | 1,888,475 | 125,081 | 56,078 | 271,167 |
| Trade and other receivables | 10 | 2,732,066 | 176,183 | 117,805 | 61,908 |
| Inventories | 11 | 2,077,857 | 349,928 | - | - |
| Current tax assets | 22 | 17,503 | - | - | - |
| Other current assets | 19 | 20,000 | - | 20,000 | 20,000 |
| | | 6,735,901 | 651,192 | 193,883 | 353,075 |
| Non-current assets classified as held for sale | 12 | 2,170,552 | - | - | - |
| TOTAL CURRENT ASSETS | | 8,906,453 | 651,192 | 193,883 | 353,075 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 10 | 2,104,430 | 987,562 | 6,392,786 | 8,863,310 |
| Investments accounted for using the equity method | 13 | 90,108 | - | 90,108 | - |
| Financial assets | 15 | - | - | 608,261 | 1,699 |
| Property, plant and equipment | 17 | 2,758,939 | 776,907 | - | - |
| Intangible assets | 18 | 3,995,494 | - | - | - |
| TOTAL NON-CURRENT ASSETS | | 8,948,971 | 1,764,469 | 7,091,155 | 8,865,009 |
| **TOTAL ASSETS** | | 17,855,424 | 2,415,661 | 7,285,038 | 9,218,084 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 20 | 10,202,778 | 731,142 | 2,871,398 | 180,907 |
| Financial liabilities | 21 | 2,606,229 | 194,160 | - | - |
| Current tax liabilities | 22 | 934,406 | 206,713 | - | - |
| TOTAL CURRENT LIABILITIES | | 13,743,413 | 1,132,015 | 2,871,398 | 180,907 |
| NON-CURRENT LIABILITIES | | | | | |
| Trade and other payables | 20 | 418,661 | 146,350 | 1,044,635 | 2,409,131 |
| Financial liabilities | 21 | 258,295 | 456,916 | - | - |
| Deferred tax liabilities | 22 | 75,607 | 18,820 | 9,557 | 81,802 |
| TOTAL NON-CURRENT LIABILITIES | | 752,563 | 622,086 | 1,054,192 | 2,490,933 |
| TOTAL LIABILITIES | | 14,495,976 | 1,754,101 | 3,925,590 | 2,671,840 |
| **NET ASSETS** | | 3,359,448 | 661,560 | 3,359,448 | 6,546,244 |
| EQUITY | | | | | |
| Issued capital | 23 | 4,776,814 | 395,150 | 20,417,490 | 16,035,826 |
| Reserves | | 211,875 | (18,287) | 339,005 | 339,005 |
| Retained earnings (accumulated losses) | | (2,498,369) | 284,697 | (17,397,047) | (9,828,587) |
| Parent interest | | 2,490,320 | 661,560 | 3,359,448 | 6,546,244 |
| Minority equity interest | 25 | 869,128 | - | - | - |
| **TOTAL EQUITY** | | 3,359,448 | 661,560 | 3,359,448 | 6,546,244 |

*The accompanying notes form part of these financial statements.*

## STATEMENTS OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2008

| **Consolidated Group** | **Note** | **Share Capital Ordinary $** | **Retained Earnings $** | **Foreign Currency Translation $** | **Option Reserve $** | **Minority Interest $** | **Total $** |
|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2006** | | - | - | - | - | - | - |
| Shares issued during the year | | 395,150 | - | - | - | - | 395,150 |
| Profit attributable to members of parent company | | - | 284,697 | - | - | - | 284,697 |
| Movement from translation of foreign controlled entities | | - | - | (18,287) | - | - | (18,287) |
| **Balance at 30 June 2007** | | 395,150 | 284,697 | (18,287) | - | - | 661,560 |
| Minority interest eliminated as part of business combination | | - | - | - | - | 551,268 | 551,268 |
| Adjustment to minority interest | | - | - | - | - | 211,466 | 211,466 |
| Shares issued during the year | | 4,381,664 | - | - | - | - | 4,381,664 |
| Profit attributable to members of parent company | | - | (2,783,066) | - | - | - | (2,783,066) |
| Profit attributable to minority Shareholders | | - | - | - | - | 152,646 | 152,646 |
| Movement from translation of foreign controlled entities | | - | - | 230,162 | - | - | 230,162 |
| Sub-total | | 4,776,814 | (2,498,369) | 211,875 | - | 915,380 | 3,405,700 |
| Dividends paid or provided for | | - | - | - | - | (46,252) | (46,252) |
| **Balance at 30 June 2008** | | 4,776,814 | (2,498,369) | 211,875 | - | 869,128 | 3,359,448 |
| | | | | | | | |
| **Parent Entity** | | | | | | | |
| Balance at 30 June 2006 | | 14,382,568 | (6,087,892) | - | 339,005 | - | 8,633,681 |
| Shares issued during the year | | 1,653,258 | - | - | - | - | 1,653,258 |
| Loss attributable to members of parent company | | - | (3,740,695) | - | - | - | (3,740,695) |
| **Balance at 30 June 2007** | | 16,035,826 | (9,828,587) | - | 339,005 | - | 6,546,244 |
| Shares issued during the year | | 4,381,664 | - | - | - | - | 4,381,664 |
| Profit attributable to members of parent company | | - | (7,568,460) | - | - | - | (7,568,460) |
| **Balance at 30 June 2008** | | 20,417,490 | (17,397,047) | - | 339,005 | - | 3,359,448 |

*The accompanying notes form part of these financial statements.*

## CASH FLOW STATEMENTS FOR YEAR ENDED 30 JUNE 2008

| | Note | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | | |
| Receipts from customers | | 23,795,370 | 3,127,005 | - | - |
| Payments to suppliers and employees | | (20,660,922) | (2,310,794) | (533,038) | (866,668) |
| Interest received | | 24,639 | - | 2,635 | 78,956 |
| Interest paid | | (116,433) | (43,978) | - | - |
| Dividends received | | - | - | 213,779 | 369,222 |
| Income tax paid | | (137,985) | - | - | - |
| Net cash from (used in) operating activities | 29a | 2,904,669 | 772,233 | (316,624) | (418,490) |
| **Cash flows from Investing Activities** | | | | | |
| Proceeds from sale of plant and equipment | | 44,424 | - | - | - |
| Purchase of property, plant and equipment | | (709,760) | (654,614) | - | (465,548) |
| Purchase of intangible assets | | (4,561) | - | - | - |
| Research and development expenses | | (73,723) | - | - | (92,334) |
| Payments for controlled entities, net of cash acquired | | 1,584,278 | - | (27,235) | (1,467,009) |
| Loans to controlled entities | | - | - | (516,968) | (2,643,168) |
| Loans to other related parties | | (2,051,300) | (841,212) | - | - |
| Investments in associated companies | | (117,805) | - | (117,805) | - |
| Disposal of subsidiaries | | 10 | - | 10 | |
| Net cash flows (used in) investing activities | | (1,328,437) | (1,495,826) | (661,998) | (4,668,059) |
| **Cash flows from Financing Activities** | | | | | |
| Repayment of borrowings | | (729,821) | (88,951) | - | 381,498 |
| Proceeds from borrowings | | - | 544,796 | - | - |
| Proceeds from share issues | | 754,000 | 395,150 | 754,000 | 40,000 |
| Dividends Paid | | (46,252) | - | - | - |
| Net cash flows from financing activities | | (22,073) | 850,995 | 754,000 | 421,498 |
| Net increase/(decrease) in cash held | | 1,554,159 | 127,402 | (224,622) | (4,665,051) |
| Effect of foreign exchange rates | | (10,665) | (2,321) | 9,533 | (71,838) |
| Cash at beginning of financial period | | 125,081 | - | 271,167 | 5,008,056 |
| Cash at end of financial period | 9 | 1,668,575 | 125,081 | 56,078 | 271,167 |

*The accompanying notes form part of these financial statements.*

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

This financial report includes the consolidated financial statements and notes of Atos Wellness Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Altos Wellness Limited as an individual parent entity ('Parent Entity').

The financial report was authorised for issue on 1 December 2008.

**Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

During the financial year, Atos Wellness Limited completed the acquisition of Atos Wellness Pte Ltd, a company incorporated in Singapore, on 31 January 2008 with effect from 1 January 2008. The purchase price was paid by the issue of 97,656,250 ordinary fully paid shares in Atos Wellness Limited. Under the terms of Australian Accounting Standard AASB 3 Business Combinations, Atos Wellness Pte Ltd was deemed to be the accounting acquirer in the business combination. The transactions has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidation financial statements of the Consolidated Group have been prepared as a continuation of the consolidated financial statements of Atos Wellness Pte Ltd. Atos Wellness Pte Ltd, as the deemed acquirer, has accounted for the acquisition of Atos Wellness Limited from 1 January 2008. Refer to note 34 for further details of the business combination.

a. **Principles of Consolidation**

A controlled entity is any entity over which Atos Wellness Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 16 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group 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 consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

*Business Combinations*

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

b. **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

*Tax Consolidation*

Atos Wellness Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group has notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 January 2004. The tax consolidated group has entered a tax funding arrangement whereby each company in the group contributes to the income tax payable by the group in proportion to their contribution to the group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

c. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d. **Property, Plant and Equipment**

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

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

**Depreciation**

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

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

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold improvements | 33.3% straight line |
| Plant and equipment | 11.25% – 50% reducing balance |
| Leased plant and equipment | 15% reducing balance |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

e. **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

f. **Financial Instruments**

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The Group holds no assets meeting this description.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method. The Group holds no assets meeting this description.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method. These liabilities include trade and other payables. These amounts represent liabilities for goods and services provided to the Group prior to the end of the year, but are unpaid. They are generally unsecured and are usually paid within 30 days of recognition.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

g. **Impairment of Assets**

At each reporting date, the group 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.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

h. **Investments in Associates**

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

i. **Interests in Joint Ventures**

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method. Details of the consolidated group's interests are shown at Note 14.

j. **Intangibles**

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Membership databases, patents and trademarks**

Membership databases, patents and trademarks are recognised at cost of acquisition. Membership databases, patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Membership databases, patents and trademarks are amortised over their useful life ranging from 2 to 3 years.

**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

k. **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency. The functional currency of the entities based in Singapore is Singapore dollars and the function currency of German entities is Euros.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

— assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;

— income and expenses are translated at average exchange rates for the period; and

— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

The functional currency of the overseas subsidiaries, Medec Systems GmbH & Bodycure Gmbh, is Euros and Medec Ltd Hong Kong and Bodycure International Ltd is Hong Kong dollars and United States dollars.

l. **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

**Equity-settled compensation**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

m. **Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

n. **Provision for Warranties**

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at balance date. The provision is measured as 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 group's history of warranty claims.

o. **Cash and Cash Equivalents**

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

p. **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

**Sale of goods**

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

**Interest**

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

**Dividends**

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

**Rental income**

Investment property revenue is recognised on a straight-line basis over the period of lease term so as to reflect a constant periodic rate of return on the net investment. Contingent rental income is recognised as income in the periods in which it is earned.

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

q. **Interest-bearing loans and borrowings**

All loans and borrowings are initially recorded at the fair value of the consideration received less directly attributable transactions costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of the loan facilities that are yield related are included in the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

r. **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 balance sheet are shown inclusive of GST. The net amount receivable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

s. **Non-Current Assets Classified as Held for Sale**

Non-current assets are classified as held for sale where an active program to locate a buyer has been initiated. Non-current assets held for sale are carried at fair value less estimated costs of disposal.

t. **Comparative Figures**

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

**Significant Accounting Judgements, Estimates and Assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) **Significant Accounting Judgements**

*Impairment of Non-Financial Assets other than Goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Management has assessed the current economic conditions, however, do not consider that the triggers for impairment testing have been significant enough and as such these assets have not been tested for impairment in this financial period.

*Classification of Assets and Liabilities as Held for Sale*

The Group classifies assets and liabilities as held for sale when its carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

*Taxation*

The Group's accounting policy for taxation requires management's judgement as to types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions.

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(ii) **Significant Accounting Estimates and Assumptions**

*Impairment of Goodwill and Intangibles with Indefinite Useful Lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. When an impairment trigger exists, the recoverable amount of the assets determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. An impairment of $Nil (2007: $719,401) has been recognised in respect of goodwill for Body Contours Pte Ltd. Should projected turnover be below the budgeted figures over the next 5 years of $172,495,000 (2007: $10,745,396), incorporated in value-in-use calculations, an impairment loss would be recognised up to a maximum carrying value of goodwill amounting to $3,917,210 (2007: $3,779,360). The total impairment loss on goodwill was $870,563 (2007: Nil). An impairment of $476,688 (2007: $Nil) has been recognised on the full carrying value in respect of goodwill on consolidation for the acquisition of Slimline Studio Pte Ltd and Slimcare Studio Pte Ltd. An impairment loss of $348,556 (2007: $Nil) has been recognised on the carrying value in respect of goodwill held by Letchworth House Pty Ltd. An impairment loss of $55,333 (2007: $Nil) has been recognised on the carrying value of goodwill held by Medec Systems GmbH. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. No other impairment has been recognised in respect of goodwill for the year ended 30 June 2008 (2007: Nil).

*Going Concern*

The financial report has been prepared on a going concern basis. The directors continue to monitor the on-going funding requirements of the Company and will seek further equity funding where necessary. The directors are of the opinion that preparation of the financial statements on a going concern basis is appropriate as;

- Group profit forecasts for the financial year ended 30 June 2009 and later years indicate a return to profitability from operating divisions;
- The company has completed the acquisition of the Atos Wellness Pte Ltd group of Singapore entities;
- The company has signed an agreement for the sale of property owned by a subsidiary with the proceeds being used to repay existing debt facilities;
- The company's largest shareholder, Siva Ananda Rajah, has given his support in the form of a signed undertaking; and
- The company has undertaken various cost cutting initiatives, restructuring of its group operations and it continues to rationalise its unprofitable activities.

*Estimation of Useful Llives of Assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

If the useful lives of assets were shortened by 20% for each asset, the financial effect on consolidated depreciation expense for the current financial year and the next four years would be:

| Year | $ |
|---|---|
| 2008 | 281,087 |
| 2009 | 167,281 |
| 2010 | (104,659) |
| 2011 | (125,219) |
| 2012 | (90,937) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

| | Note | Consolidated Group 2008 | Consolidated Group 2007 | Parent Entity 2008 | Parent Entity 2007 |
|---|---|---|---|---|---|
| **NOTE 2: REVENUE** | | $ | $ | $ | $ |
| Operating activities | | | | | |
| — sales | | 17,975,761 | 3,261,435 | - | - |
| — dividends received | 2a | - | - | 213,779 | 346,398 |
| — interest received | 2b | 24,639 | - | 2,635 | 159,113 |
| — Bad debts recovered | | 457,239 | - | - | - |
| — other revenue | | 666,538 | - | - | - |
| — rental revenue | | 2,722 | - | - | - |
| Total Revenue | | 19,126,899 | 3,261,435 | 216,414 | 505,511 |
| a. Dividend revenue from: | | | | | |
| — Partly-owned subsidiaries | | - | - | 213,779 | 346,398 |
| | | - | - | 213,779 | 346,398 |
| b. Interest revenue from: | | | | | |
| — Wholly-owned subsidiaries | | - | - | - | 87,447 |
| — other persons | | 24,639 | - | 2,635 | 71,666 |
| | | 24,639 | - | 2,635 | 159,113 |

**NOTE 3: PROFIT/(LOSS) FOR THE YEAR**

Profit/(loss) from ordinary activities before income tax has been determined after:

| | Consolidated Group 2008 | Consolidated Group 2007 | Parent Entity 2008 | Parent Entity 2007 |
|---|---|---|---|---|
| **a. Expenses** | | | | |
| Cost of sales | 3,680,783 | 996,522 | - | - |
| Depreciation of non-current assets: | | | - | |
| — plant and equipment | 1,124,346 | 72,939 | - | - |
| Loss on disposal of wholly-owned entities | 232,230 | - | 3,471,384 | - |
| Write down investment in controlled entities | - | - | 3,623,866 | 3,714,313 |
| Impairment of goodwill in controlled entities | 870,563 | - | - | - |
| Bad and doubtful debts: | | | | |
| — trade debtors | 207,045 | - | - | - |
| Rental and occupancy on operating leases: | | | | |
| — rental and occupancy expense | 1,975,904 | 270,349 | 2,935 | - |
| Foreign currency translation (profit) / losses | 19,730 | - | 9,533 | 78,440 |
| Loss on disposal of property, plant & equipment | 31,279 | - | - | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 4: INCOME TAX

| | Note | Consolidated Group 2008 | Consolidated Group 2007 | Parent Entity 2008 | Parent Entity 2007 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Accounting profit/(loss) before tax from continuing Australian tax consolidated operations | | (1,628,581) | - | (7,568,460) | (3,143,884) |
| Accounting profit/(loss) before tax from continuing international operations | | (823,218) | 514,416 | - | - |
| Consolidated profit/(loss) loss before tax | | (2,451,799) | 514,416 | (7,568,460) | (3,143,884) |
| **Income Tax Benefit for Australian consolidated group** | | | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%) | | (735,540) | 154,325 | (2,270,538) | (943,165) |
| Sundry non-deductible (deductible) expenses for Australian tax consolidated group | | | | | |
| - non-deductible expenses | | 181,457 | - | 2,314,765 | 995,619 |
| Sundry non-deductible (deductible) expenses for International Operations | | | | | |
| - non-deductible expenses | | (62,254) | 133,934 | - | - |
| Reversal of deferred tax asset previously recognised | | - | - | - | 478,480 |
| Deferred tax asset relating to tax loss not brought to account | | 688,402 | - | (44,227) | (52,454) |
| Difference in international tax rates and exchange rates | | (32,283) | (58,540) | - | - |
| Under provision in respect of prior years | | 138,839 | - | - | - |
| Income tax expense/(benefit) | | 178,621 | 229,719 | - | 478,480 |

## NOTE 4: INCOME TAX (continued)

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $ | $ | $ | $ |
| **Income Statement** | | | | | |
| Current tax: | | 55,165 | 210,550 | 44,227 | 443,410 |
| Deferred tax asset relating to tax losses | | - | - | - | (52,454) |
| Under/(over) provision in respect of prior years | | 138,839 | - | (72,245) | - |
| <u>Deferred income tax:</u> | | | | | |
| Temporary differences recognised in equity | | - | - | - | 84,399 |
| Relating to origination and reversal on temporary differences | | (15,383) | 19,169 | 72,245 | 3,125 |
| Current year tax losses not recognised in the current period | | 90,860 | - | 17,351 | - |
| Temporary differences not recognised in the current period | | (90,860) | - | (61,578) | - |
| Income tax expense reported in income statement | | 178,621 | 229,719 | - | 478,480 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 5: DISCONTINUED OPERATIONS

| | Consolidated Group | |
|---|---|---|
| | 2008 | 2007 |
| | $ | $ |

On 21 December 2007, Atos Wellness Limited signed an agreement for the management buy-out of Medec Australia Pty Ltd, thereby discontinuing its operations in this business.

This announcement was made subsequent to approval by the group's management and shareholders.

The division was sold on 21 December 2007.

Financial information relating to the discontinued operation to the date of disposal is set out below. The financial information is not included at Note 28 Segment Reporting or in the consolidated results for the year as the disposal occurred prior to the reverse acquisition of Atos Wellness Limited by Atos Wellness Pte Ltd on 1 January 2008 and therefore was not part of the Consolidated Group. Accordingly, the following disclosures are shown for information purposes only.

The financial performance of the discontinued operation to the date of sale which is as follows:

| | 2008 $ | 2007 $ |
|---|---|---|
| Revenue | 2,700,643 | - |
| Expenses | (3,377,148) | - |
| Loss before income tax | (676,505) | - |
| Income tax expense | - | - |
| Loss attributable to members of the parent entity | (676,505) | - |
| Loss on sale before income tax | (1,356,826) | - |
| Income tax expense | - | - |
| Profit/(loss) on sale after income tax | (1,356,826) | - |
| Total profit after tax attributable to the discontinued operation | (2,033,331) | - |

The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:

| | 2008 $ | 2007 $ |
|---|---|---|
| Net cash inflow/(outflow) from operating activities | (753,357) | - |
| Net cash flow from investing activities | - | - |
| Net cash (outflow)/inflow from financing activities | - | - |
| Net cash increase in cash generated by the discontinuing division | (753,357) | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:**

| **Key Management Persons** | **Position** |
|---|---|
| Gordon T Getley | Chairman |
| Giulio D Cimetta | Director |
| Chris E Fairman | Director (resigned 27 February 2008) |
| Ananda Rajah | Chief Executive Office / Director (appointed 27 February 2008) |
| John Darling | Director (Appointed 8 May 2008) |
| Pushpa Tulsidas | Managing Director – Body Contours Pte Ltd |
| Bernard Wee | CEO/CFO (appointed CEO 1 September 2007, resigned 1 March 2008, appointed CFO 1 March 2008, resigned 30 September 2008) |
| Pathma Ayadurai | Director – Atos Wellness Pte Ltd |
| Pauline Wee Tyng Lin | Senior Studio Manager – Body Contours Pte Ltd |
| Lloyd A Halvorson | Company Secretary (resigned 12 December 2007) |
| Ian Gregory | Company Secretary (appointed 12 December 2007) |

b. **Remuneration**

| | **2008** | **2007** |
|---|---|---|
| | **$** | **$** |
| Short-term | 554,477 | 646,034 |
| Post-employment | 15,946 | 53,007 |
| Non-cash benefits | 8,795 | - |
| Long-term benefits | - | - |
| Share-based payments | - | 10,890 |
| | 579,218 | 709,931 |

c. **Key Management Personnel Compensation**

Detailed information on key management personnel remuneration has been included in the Remuneration Report section of the Directors report.

| **Key Management Person** | **Balance 1.7.2006** | **Granted as Compen-sation** | **Options Exercised*** | **Net Change Other*** | **Balance 30.6.2007** |
|---|---|---|---|---|---|
| Colin P Bilney # | 50,000 | - | - | (50,000) | - |
| Lloyd A Halverson | 75,000 | - | - | (75,000) | - |
| David Huang | 50,000 | - | - | (50,000) | - |
| Total | 175,000 | - | - | (175,000) | - |

# resigned 1 February 2006

* The Net Change Other reflected above refers to options that expired during the year.

There were no options on issue during the year ended 30 June 2008.

**NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)**

d. **Number of Shares held by Key Management Personnel**

| | Balance 1.7.2006 | Granted as Compensation | Options Exercised | Net Change* Other | Balance 30.6.2007 |
|---|---|---|---|---|---|
| Gordon T Getley | 104,000 | - | - | 198,845 | 302,845 |
| Giulio D Cimetta | 1,182,501 | - | - | 100,000 | 1,282,501 |
| Chris E Fairman | - | - | - | - | - |
| Ananda Rajah | - | - | - | 10,206,298 | 10,206,298 |
| Josef A Plattner (resigned 23 April 2007) | 8,085,208 | - | - | 2,758,660 | 10,843,868 |
| Frank Welsch-Lehmann | - | - | - | 251,820 | 251,820 |
| Lloyd A Halvorson | 30,000 | 121,000 | - | - | 151,000 |
| David Huang | 40,000 | - | - | - | 40,000 |
| Joseph Ohayon (resigned 23 Feb 2007) | - | - | - | - | - |
| Shawn Murphy | - | - | - | - | - |
| Stephen Falkiner | - | - | - | - | - |
| Total | 9,441,709 | 121,000 | - | 13,515,623 | 23,078,332 |

| | Balance 1.7.2007 | Granted as Compensation | Options Exercised | Net Change* Other | Balance 30.6.2008 |
|---|---|---|---|---|---|
| Gordon T Getley | 302,845 | - | - | (49,334) | 253,511 |
| Giulio D Cimetta | 1,282,501 | - | - | (50,000) | 1,232,501 |
| Chris E Fairman | - | - | - | - | - |
| Ananda Rajah | 10,206,298 | - | - | 62,932,740 | 73,139,038 |
| Pathma Ayadurai | - | - | - | 24,414,063 | 24,414,063 |
| Pushpa Tulsidas | - | - | - | 421,906 | 421,906 |
| Lloyd A Halvorson | 151,000 | - | - | - | 151,000 |
| Bernard Wee | - | - | - | - | - |
| Pauline Wee Tyng Lin | - | - | - | - | - |
| Ian Gregory | - | - | - | - | - |
| Total | 11,942,644 | - | - | 87,669,375 | 99,612,019 |

* Net Change Other refers to shares purchased or sold during the financial year, shares cancelled on cancellation of acquisition of remaining equity in Body Contours Pte Ltd and shares acquired by Ananda Rajah and Pathma Ayadurai on acquisition of Atos Wellness Pte Ltd.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **NOTE 7: AUDITORS' REMUNERATION** | | | | |
| Remuneration of the auditor of the parent entity for: | | | | |
| — auditing or reviewing the financial report | 96,487 | 7,783 | 96,487 | - |
| — tax services | 9,330 | - | 9,330 | - |
| — Other | 3,000 | - | 3,000 | - |
| Remuneration of other auditors of subsidiaries for: | | | | |
| — auditing or reviewing the financial report of subsidiaries | 61,368 | - | - | - |

### NOTE 8: EARNINGS PER SHARE

| | Consolidated Group | |
|---|---|---|
| | 2008 | 2007 |
| a. Reconciliation of earnings to profit or loss | | |
| Profit/(loss) | (2,630,420) | 284,697 |
| (Profit) attributable to minority equity interest | (152,646) | - |
| Earnings used to calculate basic EPS | (2,783,066) | 284,697 |
| | No. | No. |
| b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 119,160,907 | 72,573,416 |
| Weighted average of options outstanding | - | - |
| Weighted average of number of ordinary shares outstanding during the year used in calculating dilutive EPS | 119,160,907 | 72,573,416 |

| NOTE 9: CASH AND CASH EQUIVALENTS | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Cash at bank and in hand | 1,888,475 | 125,081 | 56,078 | 271,167 |
| Short-term bank deposits | - | - | - | - |
| | 1,888,475 | 125,081 | 56,078 | 271,167 |

**Reconciliation of Cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 1,888,475 | 125,081 | 56,078 | 271,167 |
| Bank overdrafts | (219,900) | - | - | - |
| | 1,668,575 | 125,081 | 56,078 | 271,167 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 10: TRADE AND OTHER RECEIVABLES

| | | | | | |
|---|---|---|---|---|---|
| CURRENT | | | | | |
| Trade receivables | | 1,082,260 | 134,430 | - | - |
| Provision for impairment of receivables | 10a | (150,202) | - | - | - |
| | | 932,058 | 134,430 | - | - |
| Deposits | 10b | 117,805 | - | 117,805 | - |
| Other receivables | | 1,682,203 | 41,753 | - | 61,908 |
| | | 2,732,066 | 176,183 | 117,805 | 61,908 |

| | | | | | |
|---|---|---|---|---|---|
| NON CURRENT | | | | | |
| Amounts receivable from: | | | | | |
| — Wholly-owned subsidiaries | | - | - | 6,225,574 | 8,863,310 |
| — Other controlled entities | | - | - | 167,212 | - |
| — Other related companies | | 2,038,714 | 987,562 | - | - |
| — Directors of wholly-owned subsidiaries | | 65,716 | - | - | - |
| | | 2,104,430 | 987,562 | 6,392,786 | 8,863,310 |

The amounts receivable from controlled entities (refer note 16) and other related companies are carried at cost. The ultimate recoupment of these receivables is dependent on upon the generation of sufficient future cash flows from the sale of the products of the Consolidated Group and the respective related companies.

As there is no current intention for loans to wholly owned entities, amounts receivable from wholly owned subsidiaries are treated as an investment in subsidiaries for accounting purposes & carried at cost, less provision for impairment.

The loan to directors bears interest at 5.38% per annum and is repayable on demand.

a. **Provision for Impairment of Receivables**

Current trade and term receivables are non-interest bearing loans and generally on 30 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

| | | Opening Balance 1 July 2006 | Charge for the Year | Amounts Written Off | Closing Balance 30 June 2007 |
|---|---|---|---|---|---|
| | **Consolidated Group** | | | | |
| (i) | Current trade receivables | - | - | - | - |
| (ii) | Non-current associated companies | - | - | - | - |
| | | - | - | - | - |

| | | Opening Balance 1 July 2007 | Charge for the Year | Amounts Written Off | Closing Balance 30 June 2008 |
|---|---|---|---|---|---|
| | **Consolidated Group** | | | | |
| (i) | Current trade receivables | - | 207,045 | (56,843) | 150,202 |
| (ii) | Non-current associated companies | - | - | - | - |
| | | - | 207,045 | (56,843) | 150,202 |

It is expected these balances will be received when due. Impaired assets are provided for in full.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| iii. **Ageing analysis of trade receivables** | | | | |
| 0 – 30 days past due | 434,734 | 125,706 | - | - |
| 31 – 60 days past due | 96,708 | 7,176 | - | - |
| 61 – 90 days past due not impaired | 28,192 | - | - | - |
| 61 – 90 days past due considered impaired | - | - | - | - |
| 91 + days past due not impaired | 372,424 | 1,548 | - | - |
| 91 + days past due considered impaired | 150,202 | - | - | - |
| | 1,082,260 | 134,430 | - | - |

b. Deposits refer to a deposit for the acquisition of 40% of issued capital of Bionic Care GmbH. A contract has been entered into for the purchase of the interest after balance sheet date. See note 31 for further details.

**NOTE 11: INVENTORIES**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| CURRENT | | | | |
| Raw materials and stores, at cost | 194,602 | - | - | - |
| Finished goods, at cost | 1,883,255 | 349,928 | - | - |
| | 2,077,857 | 349,928 | - | - |

**NOTE 12: NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE**

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $ | $ | $ | $ |
| LAND & BUILDINGS | | | | | |
| Freehold land and buildings | | | | | |
| At fair value | | 2,170,552 | - | - | - |
| | | 2,170,552 | - | - | - |

Non-current assets are classified as held for sale where an active program to locate a buyer has been initiated. The assets held for sale comprises land and buildings held by Inahamani Pte Ltd. The properties have been sold subsequent to the balance sheet date. The proceeds will be used to repay existing bank loan facilities.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008<br>$ | 2007<br>$ | 2008<br>$ | 2007<br>$ |
| Interests in joint venture entities | 14a | 90,108 | - | 90,108 | - |
| | | 90,108 | - | 90,108 | - |

### NOTE 14: JOINT VENTURE

a. **Interests in Joint Venture Entities**

Atos Wellness Ltd has a 50% interest in the joint venture entity ATOS SOL Wellness Pty Ltd incorporated in Australia which is involved in the wellness industry.

The voting power held by Atos Wellness Ltd is 50%

The interest in joint venture entities is accounted for in the consolidated statements using the equity method of accounting

i. Share of joint venture entity's results and financial position:

| | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| Current Assets | 66,934 | - | 66,934 | - |
| Non-current Assets | 109,348 | - | 109,348 | - |
| Total Assets | 176,282 | - | 176,282 | - |
| Current Liabilities | 8,900 | - | 8,900 | - |
| Non-current Liabilities | 31,568 | - | 31,568 | - |
| Total Liabilities | 40,468 | - | 40,468 | - |
| Revenues | 82,120 | - | 82,120 | - |
| Expenses | (91,527) | - | (91,527) | - |
| Loss before income tax | (9,407) | - | (9,407) | - |
| Income tax expense | - | - | - | - |
| Profit after income tax | (9,407) | - | (9,407) | - |

### NOTE 15: OTHER FINANCIAL ASSETS

| | Note | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|---|
| Unlisted shares held at recoverable amount | 15a | - | - | 608,261 | 1,699 |
| | | - | - | 608,261 | 1,699 |

a. **Other Financial Assets Comprise**

| | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| Unlisted investments, at recoverable amount | | | | |
| — Shares in controlled entities, at cost | - | - | 11,196,487 | 7,925,887 |
| Less: Impairment provision | - | - | (10,588,226) | (7,924,188) |
| Total other financial assets | - | - | 608,261 | 1,699 |

Other financial assets comprise investments in the ordinary issued capital of various entities and an interest in a joint venture. There are no fixed returns or fixed maturity date attached to these investments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

**NOTE 16: CONTROLLED ENTITIES**

a. Controlled Entities

| | Country of Incorporation | Percentage Owned * | |
|---|---|---|---|
| | | 2008 | 2007 |
| *Legal Parent Entity:* | | | |
| Atos Wellness Limited | Australia | | |
| | | | |
| *Subsidiaries of Atos Wellness Limited* | | | |
| Atos Wellness Pte Ltd | Singapore | 100 | - |
| Medec Australia Pty Ltd | Australia | - | 100 |
| Swandale Holdings Pty Ltd | Australia | 100 | 100 |
| Learange Holdings Pty Ltd | Australia | 100 | 100 |
| Medec International Pty Ltd | Australia | 100 | 100 |
| Medec Systems GmbH | Germany | 100 | 100 |
| Medec Ltd | Hong Kong | 100 | 100 |
| Bodycure International Ltd | Hong Kong | 60 | 60 |
| Body Contours Pte Ltd | Singapore | 51 | 51 |
| Bodycure Deutschland GmBH | Germany | 49 | 100 |
| Eaglemaster Ltd | Hong Kong | 60 | 60 |
| Inahamani Pte Ltd | Singapore | 100 | - |
| | | | |
| *Subsidiaries of Atos Wellness Pte Ltd* | | | |
| Atos Consumer Products Pte Ltd | Singapore | 100 | 100 |
| SlimLine Studio Pte Ltd | Singapore | 100 | 100 |
| SlimCare Studio Pte Ltd | Singapore | 100 | 100 |
| | | | |
| *Subsidiaries of Medec International Pty Ltd* | | | |
| Medec International Management Pty Ltd | Australia | 100 | 100 |
| Letchworth House Pty Ltd | Australia | 100 | 100 |
| | | | |
| *Subsidiaries of Body Contours Pte Ltd* | | | |
| Blush Spa Pte Ltd | Singapore | - | 51 |
| The Aesthetics Clinic (Body Contours) Pte Ltd | Singapore | 100 | 100 |
| Body Contours Wellness Spa Sdn. Bhd. | Malaysia | 51 | 51 |
| Kooch Pte Ltd | Singapore | 80 | - |

** Percentage of voting power is in proportion to ownership*

This note represents the legal structure of investments in subsidiaries held by Atos Wellness Limited. Refer to note 34 in relation to the business combination for details of how these investments have been accounted for.

b. **Acquisition of controlled entities**

On 31 January 2008, the parent entity acquired 100% of the legal subsidiary Atos Wellness Pte Ltd, a company incorporated in Singapore with effect from 1 January 2008.

While the legal entity acquired as a result of the acquisition is set out above, this transaction has been accounted for as a reverse acquisition.

These financial statements therefore represent a continuation of the legal subsidiary, Atos Wellness Pte Ltd, and the income statement for this financial period incorporates consolidated results for Atos Wellness Pte Ltd for the financial period and the results of Atos Wellness Limited and its controlled entities from the date of acquisition of 1 January 2008.

**NOTE 16: CONTROLLED ENTITIES (CONT'D)**

This has resulted in the consolidated Balance Sheet reflecting the historial assets, liabilities and equity of Atos Wellness Pte Ltd and the cost of the combination being recognised at fair value of the net assets of Atos Wellness Limited at the date of acquisition.

During the previous year, the company completed the following acquisitions:

- 51% of the issued capital of Body Contours Pte Ltd, a Singaporean company operating in the health & wellness industry;
- the subsidiary company Letchworth House Pty Ltd acquired the assets of Inspired Life, a business which operates a health & fitness centre in Bentley, WA.
- the company acquired the intellectual property of Bodycure International Ltd, an entity incorporated in Hong Kong.
- the company purchased a 100% equity interest in Bodycure Deutschland GmBH, a weight management entity incorporated in Germany.
- a 60% equity share was attained in Eaglemaster, an entity incorporated in Hong Kong involved in the manufacture and distribution of massage tables and accessories.

c. **Disposal of Controlled Entities**

During the year the following entities were disposed of prior to the reverse acquisition involving Atos Wellness Pte Ltd. Accordingly, their results are not included in the consolidation financial statements for the financial period. Refer to note 5 for further details.

- Medec Australia Pty Ltd

**NOTE 17: PROPERTY, PLANT AND EQUIPMENT**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Plant and equipment | | | | |
| At cost | 6,669,404 | 849,846 | - | - |
| Accumulated depreciation | (3,910,465) | (72,939) | - | - |
| | 2,758,939 | 776,907 | - | - |

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Balance at the beginning of year | 776,907 | - | - | - |
| Additions through business combinations | 2,465,438 | - | - | - |
| Additions | 816,158 | 849,846 | - | - |
| Disposals | (175,218) | - | - | - |
| Depreciation expense | (1,124,346) | (72,939) | - | - |
| Carrying amount at the end of year | 2,758,939 | 776,907 | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **NOTE 18: INTANGIBLE ASSETS** | | | | |
| Intellectual property, trademarks, copyright ,licences & membership databases at cost | 4,561 | - | - | - |
| Accumulated amortisation & impairment | - | - | - | - |
| Net carrying value | 4,561 | - | - | - |
| Development costs | 73,723 | - | - | - |
| Accumulated amortisation & impairment | - | - | - | - |
| Net Carrying Value | 73,723 | - | - | - |
| Goodwill | 4,787,773 | - | - | - |
| Accumulated impaired losses | (870,563) | - | - | - |
| Net Carrying Value | 3,917,210 | - | - | - |
| Total | 3,995,494 | - | - | - |

Development costs have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Trademarks, membership databases and patents are amortised over 2 to 3 years.

No amortisation has been recognised in the current period as the transactions occurred just prior to the end of the reporting period.

**Movements in Carrying Amounts**

| | Goodwill | Intellectual Property | Development Costs | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Consolidated Group:** | | | | |
| **Year ended 30 June 2008** | | | | |
| Balance at the beginning of year | - | - | - | - |
| Additions | - | 4,561 | 73,723 | 78,284 |
| Additions through business combinations | 4,787,773 | - | - | 4,787,773 |
| Amortisation charge | - | - | - | - |
| Impairment losses | (870,563) | | | (870,563) |
| | 3,917,210 | 4,561 | 73,723 | 3,995,494 |

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **NOTE 19: OTHER ASSETS** | | | | |
| CURRENT | | | | |
| Prepayments | 20,000 | - | 20,000 | 20,000 |

| | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| **NOTE 20: TRADE AND OTHER PAYABLES** | | | | |
| CURRENT | | | | |
| Unsecured liabilities: | | | | |
| Trade payables | 931,252 | 41,413 | 55,285 | 7,200 |
| Accrued expenses and sundry payables | 3,704,211 | 689,729 | 281,934 | 173,707 |
| Deferred income | 3,033,136 | - | - | - |
| Deferred settlements | 2,534,179 | - | 2,534,179 | - |
| | 10,202,778 | 731,142 | 2,871,398 | 180,907 |
| NON-CURRENT | | | | |
| Unsecured liabilities: | | | | |
| Amounts payable to wholly-owned subsidiaries | - | - | 669,065 | 195,333 |
| Amounts payable to other controlled entities | - | - | 375,570 | - |
| Amounts payable to other related parties | 418,661 | 146,350 | - | - |
| Deferred settlements | - | - | - | 2,213,798 |
| | 418,661 | 146,350 | 1,044,635 | 2,409,131 |

Current deferred settlements (2007: non-current) includes $2,534,179 for the deferred consideration relating to the acquisition of Body Contours Pte Ltd in Singapore, payable in 2009 (2007: discounted to present value $2,213,798).

| | Consolidated Group 2008 $ | Consolidated Group 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| **NOTE 21: FINANCIAL LIABILITIES** | | | | |
| CURRENT | | | | |
| Secured Liabilities | | | | |
| Bank overdrafts | 219,900 | - | - | - |
| Hire purchase liabilities | 266,447 | 57,834 | - | - |
| Bank loans | 2,119,882 | 136,326 | - | - |
| | 2,606,229 | 194,160 | - | - |
| NON CURRENT | | | | |
| Secured Liabilities | | | | |
| Hire purchase liabilities | 258,295 | 58,373 | - | - |
| Bank loans | - | 398,543 | - | - |
| | 258,295 | 456,916 | - | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 21: FINANCIAL LIABILITIES (CONT'D)

a. Total current and non-current secured liabilities:

| | | | | |
|---|---|---|---|---|
| Bank overdraft | 219,900 | - | - | - |
| Bank loans | 2,119,882 | 534,869 | - | - |
| Hire purchase liabilities | 524,742 | 116,207 | - | - |
| | 2,864,524 | 651,076 | - | - |

b. The carrying amounts of non-current assets pledged as security are:

| | | | | |
|---|---|---|---|---|
| First mortgage over freehold land and buildings | 2,170,552 | - | - | - |
| Plant and equipment under hire purchase | 328,028 | 37,129 | - | - |
| | 2,498,580 | 37,129 | - | - |

c. The bank overdrafts of the subsidiaries are secured by a registered first mortgage over certain freehold properties in which one of the directors has a beneficial interest.

d. The bank and mortgage loans are secured by registered first mortgages over certain freehold property of Inahamani Pte Ltd and a related party and by way of joint and several personal guarantees of the directors of Atos Welness Pte Ltd.

Financing facilities available
At reporting date, the following banking facilities had been negotiated and were available:

| | | | | |
|---|---|---|---|---|
| Bank loans | 2,531,230 | 534,870 | - | - |
| Hire purchase facilities | 524,742 | 116,207 | | |
| Bank overdraft facility | 219,900 | - | - | - |
| Credit cards | 10,000 | - | - | - |
| | 3,285,872 | 651,077 | - | - |
| Loan facility from related party | - | - | - | 500,000 |
| | 3,285,872 | 651,077 | - | 500,000 |

Prior to the sale of Medec Australia Pty Ltd in December 2007, the parent company provided a guarantee and indemnity for the sum of $680,000 and a fixed and floating charge over the assets and undertakings of Medec Australia Pty Ltd in favour of the bank.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 22: TAX**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| a. **Liabilities** | | | | |
| CURRENT | | | | |
| Income Tax | 934,406 | 206,713 | - | - |
| NON-CURRENT | | | | |

| | Opening Balance | Charged to Income | Business Combination | Changes in Tax Rate | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Consolidated Group** | | | | | | |
| **Deferred Tax Liability** | | | | | | |
| Property Plant and Equipment | | | | | | |
| — tax allowance | - | 19,169 | - | - | (349) | 18,820 |
| **Balance at 30 June 2007** | - | 19,169 | - | - | (349) | 18,820 |
| Property Plant and Equipment | | | | | | |
| — tax allowance | 18,820 | (15,383) | 64,200 | - | (1,587) | 66,050 |
| Other | - | - | 9,557 | - | - | 9,557 |
| **Balance at 30 June 2008** | 18,820 | (15,383) | 73,757 | | (1,587) | 75,607 |
| **Parent Entity** | | | | | | |
| **Deferred Tax Liability** | | | | | | |
| Other | - | 81,802 | | | | 81,802 |
| **Balance at 30 June 2007** | - | 81,802 | - | - | - | 81,802 |
| Other | 81,802 | (72,245) | - | - | - | 9,557 |
| **Balance at 30 June 2008** | 81,802 | (72,245) | - | - | - | 9,557 |

| | | | | |
|---|---|---|---|---|
| b. **Assets** | | | | |
| CURRENT | | | | |
| Income Tax | 17,503 | - | - | - |

| | | | | |
|---|---|---|---|---|
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur: | | | | |
| Australian Operations | | | | |
| — temporary differences | 271,588 | - | 36,602 | 84,620 |
| — temporary differences in equity | 82,401 | - | 82,401 | 182,443 |
| — tax losses: operating losses | 1,993,317 | - | 1,993,317 | 2,670,442 |
| Unrecognised deferred tax liabilities | - | - | - | - |
| Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax | 164,634 | 164,634 | 164,634 | 164,634 |

| NOTE 23: ISSUED CAPITAL | $ | $ | $ | $ |
|---|---|---|---|---|
| ***182,776,194*** (2007: 81,612,725) fully paid ordinary shares | 4,776,814 | 395,150 | 20,417,490 | 16,035,826 |

The company has no specified level of authorised capital and the shares have no par value.

**a.** 2007 consolidated issued capital comprised 500,000 ordinary shares of Singapore $1 each in Atos Wellness Pte Ltd.

| **b. Ordinary shares** | **No. of shares** | **No. of shares** | **No. of shares** | **No. of shares** |
|---|---|---|---|---|
| At the beginning of the reporting year | 81,612,725 | 66,754,007 | 81,612,725 | 66,754,007 |
| Shares issued during the period: | | | | |
| - 7 February 2008 issued @ $0.06 | 5,000,000 | - | 5,000,000 | - |
| - 7 February 2008 issued as consideration for the acquisition of Atos Wellness Pte Ltd @ $0.05 | 97,656,250 | - | 97,656,250 | - |
| - 14 February 2008 issued @ $0.06 | 5,566,666 | - | 5,566,666 | - |
| - 17 June 2008 issued @ $0.06 | 2,000,000 | - | 2,000,000 | - |
| - 4 August 2006 issued on the exercise of options @ $0.20 | - | 200,000 | - | 200,000 |
| - 4 August 2006 issued as partial consideration for the acquisition of Body Contours Pte Ltd @ $0.30 | - | 4,921,906 | - | 4,921,906 |
| - 29 August 2006 issued as consideration for the acquisition of Bodycure Oberusal @ $0.30 | - | 251,820 | - | 251,820 |
| - 30 April 2007 issued as final consideration for the acquisition of Swandale @ $0.17 | - | 304,545 | - | 304,545 |
| - 25 May 2007 issued as partial consideration for the acquisition of Body Contours Pte Ltd @ $0.00 | - | 8,000,000 | - | 8,000,000 |
| - 31 May 2007 issued as partial consideration for the acquisition of Body Contours Pte Ltd @ $0.00 | - | 1,059,447 | - | 1,059,447 |
| - 29 June 2007 issued as settlement of an ETP for employee Lloyd Halvorson @ $0.09 | - | 121,000 | - | 121,000 |
| Shares cancelled during the year | | | | |
| - 30 November 2007 cancelled shares issued on cancellation of acquisition of Body Contours Pte Ltd | (9,059,447) | - | (9,059,447) | - |
| At reporting date | 182,776,194 | 81,612,725 | 182,776,194 | 81,612,725 |

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

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On 31 January 2008, the parent entity issued 97,656,250 ordinary fully paid shares to shareholders of Atos Wellness Pte Ltd in exchange for all of the ordinary shares in Atos Wellness Pte Ltd. Pursuant to AASB 3 Business Combinations, the acquirer was identified as Atos Wellness Pte Ltd, being responsible for the reverse acquisition of the Atos Wellness Limited. The fair value was calculated on the number of ordinary shares on issue at the date of acquisition of 72,553,278 at a fair value of $0.05 per share. The fair value was based on the share price of Atos Wellness Limited on the date of acquisition.

8,000,000 & 1,059,447 shares issued to Mr Ananda Rajah as partial consideration for the acquisition of an additional 24.5% share in Body Contours Pte Ltd were cancelled on 30 November 2007 as a result of the deal being cancelled. The cancellation of the shares was approved at the annual general meeting held on 30 30 November 2007. Refer Note 28.

**c. Options**

i. For information relating to the Atos Wellness Limited unlisted employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the year end, refer to Note 30 Share Based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 30 Share Based Payments.

**d. Capital Management**

Management controls the capital of the group in order to maintain an acceptable debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital, and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distribution to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio within an acceptable range. The gearing ratio's for the year ended 30 June 2008 and 30 June 2007 are as follows:

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $ | $ | $ | $ |
| Total borrowings | 20,21 | 13,485,963 | 1,382,218 | 3,916,033 | 2,590,038 |
| Less cash and cash equivalents | 9 | (1,888,475) | (125,018) | (56,078) | (271,167) |
| Net Debt | | 11,597,488 | 1,257,200 | 3,859,955 | 2,318,871 |
| Total equity | | 3,359,448 | 661,560 | 3,359,448 | 6,546,244 |
| Total capital | | 14,956,936 | 1,918,760 | 7,219,403 | 8,865,115 |
| Gearing Ratio | | 77.5% | 65.5% | 46.5% | 26.2% |

**NOTE 24: RESERVES**

**Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of the financial statements of foreign controlled entities.

**Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $ | $ | $ | $ |
| **NOTE 25: MINORITY EQUITY INTEREST** | | | | | |
| Body Contours Pte Ltd | | 869,128 | - | - | - |
| | | 869,128 | - | - | - |

**NOTE 26: CAPITAL AND LEASING COMMITMENTS**

| | | 2008 | 2007 | 2008 | 2007 |
|---|---|---|---|---|---|
| a) Hire Purchase Commitments | | | | | |
| Payable | | | | | |
| — not later than 1 year | | 291,889 | 65,706 | - | - |
| — later than 1 year but not later than five years | | 290,896 | 62,309 | - | - |
| Total hire purchase liability | | 582,785 | 128,015 | - | - |
| Less future finance charges | | (58,043) | (11,808) | - | - |
| | | 524,742 | 116,207 | - | - |
| b) Operating Lease Commitments | | | | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | | | | |
| Payable | | | | | |
| — Not later than 1 year | | 1,842,825 | 332,568 | - | - |
| — Later than 1 year but not later than 5 years | | 1,221,671 | 188,073 | - | - |
| — Later than 5 years | | - | - | - | - |
| | | 3,064,496 | 520,641 | - | - |

The operating leases for properties in Australia, Germany & Singapore are for terms ranging from 1 to 8 years with options to renew the leases for a further 3 years. Rent is payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by the lower of CPI and either 3% or 4% per annum.

| | | 2008 | 2007 | 2008 | 2007 |
|---|---|---|---|---|---|
| c) Joint Ventures | | | | | |
| i. Share of capital commitments of joint venture entity contracted for: | | | | | |
| — equity contributions per joint venture agreement | | 450,000 | - | 450,000 | - |

**NOTE 27: CONTINGENT LIABILITIES**

There are no contingent liabilities as at 30 June 2008.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 28: STATEMENT OF OPERATIONS BY SEGMENTS (Consolidated Group)

| a. Primary reporting - Geographic Segments | Australia 2008 $ | Europe 2008 $ | Asia 2008 $ | Eliminations 2008 $ | Total 2008 $ |
|---|---|---|---|---|---|
| External Sales | 848,217 | 1,788,018 | 15,339,526 | - | 17,975,761 |
| Other Revenue | 1,434 | 2,768 | 1,146,936 | - | 1,151,138 |
| Inter-segment Revenue | | | | | - |
| Total Segment Revenue | 849,651 | 1,790,786 | 16,486,462 | - | 19,126,899 |
| Unallocated Revenue | | | | | - |
| Total revenue | 849,651 | 1,790,786 | 16,486,462 | - | 19,126,899 |
| RESULT | | | | | |
| Segment result | (1,628,581) | (1,092,248) | 269,030 | - | (2,451,799) |
| Unallocated expenses net of unallocated revenue | | | | | - |
| Loss before income tax | | | | | (2,451,799) |
| Income tax benefit/(expense) | | | | | (178,621) |
| Loss after income tax | | | | | (2,630,420) |
| ASSETS | | | | | |
| Segment assets | 14,552,661 | 1,665,930 | 13,154,649 | (11,517,816) | 17,855,424 |
| Unallocated assets | | | | | - |
| Total Assets | | | | | 17,855,424 |
| LIABILITIES | | | | | |
| Segment liabilities | 10,699,649 | 3,229,754 | 10,416,517 | (9,849,944) | 14,495,976 |
| Unallocated liabilities | | | | | - |
| Total Liabilities | | | | | 14,495,976 |
| OTHER | | | | | |
| Acquisitions of non current segment assets | 14,062,840 | 805,183 | 3,929,796 | (11,613,317) | 7,184,502 |
| Depreciation and amortisation of segment assets | 28,513 | 145,730 | 950,103 | - | 1,124,346 |
| Investments accounted for using the equity method | 90,108 | - | - | - | 90,108 |

**Accounting policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Whilst most such assets can be directly attributable to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

**Inter-segment transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

**Business and geographical segments**

The Consolidated Group had the following business segments;

- Manufacturing and distribution division based in Germany that manufactures the Medec range of products
- Manufacturing and distribution division based in Victoria, Australia that manufactures the Athlegen range of products
- Health and wellness division based in Singapore, that provides a range of health and beauty treatments

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 28: STATEMENT OF OPERATIONS BY SEGMENTS (Consolidated Group)

| a. Primary reporting - Geographic Segments | Australia 2007 $ | Europe 2007 $ | Asia 2007 $ | Eliminations 2007 $ | Total 2007 $ |
|---|---|---|---|---|---|
| External Sales | - | - | 3,261,435 | - | 3,261,435 |
| Other Revenue | - | - | - | - | - |
| Inter-segment Revenue | - | - | - | - | - |
| Total Segment Revenue | - | - | 3,261,435 | - | 3,261,435 |
| Unallocated Revenue | - | - | - | - | - |
| Total revenue | - | - | 3,261,435 | - | 3,261,435 |
| RESULT | | | | | |
| Segment result | - | - | 514,416 | - | 514,416 |
| Unallocated expenses net of unallocated revenue | | | | | - |
| Loss before income tax | | | | | 514,416 |
| Income tax benefit/(expense) | | | | | (229,719) |
| Loss after income tax | | | | | 284,697 |
| ASSETS | | | | | |
| Segment assets | - | - | 2,415,661 | - | 2,415,661 |
| Unallocated assets | | | | | - |
| Total Assets | | | | | 2,415,661 |
| LIABILITIES | | | | | |
| Segment liabilities | - | - | 1,754,101 | - | 1,754,101 |
| Unallocated liabilities | | | | | - |
| Total Liabilities | | | | | 1,754,101 |
| OTHER | | | | | |
| Acquisitions of non current segment assets | - | - | 1,764,469 | - | 1,764,469 |
| Depreciation and amortisation of segment assets | - | - | 72,939 | - | 72,939 |

**Accounting policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Whilst most such assets can be directly attributable to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

**Inter-segment transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

**Business and geographical segments**

The Consolidated Group had the following business segments;

- Health and wellness division based in Singapore, that provides a range of health and beauty treatments

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 29: CASH FLOW INFORMATION

**(a). Reconciliation of Cash Flow from Operations with Profit (Loss) after Income Tax**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Profit/(Loss) after income tax | (2,630,420) | 284,697 | (7,568,460) | (3,740,695) |
| Non-cash flows in profit | | | | |
| Depreciation | 1,124,346 | 72,939 | - | - |
| Loss on disposal of plant and equipment | 31,279 | - | - | - |
| Loss on disposal of investments in controlled entities | 232,230 | - | 3,471,384 | - |
| Share of joint venture entity net loss after income tax | 9,407 | - | 9,407 | - |
| Impairment of investment in controlled entities | - | - | 3,623,866 | - |
| Impairment of goodwill | 870,563 | - | - | - |
| Movement on foreign exchange reserve | 270,772 | (15,966) | (9,533) | - |
| Other | 176,556 | - | 1,699 | (456,669) |
| Changes in asset and liabilities, net of effects of purchase and disposal of subsidiaries | | | | |
| (Increase)/decrease in receivables | 2,054,407 | (134,430) | - | 1,585,677 |
| (Increase)/decrease in inventories | 636,947 | (349,928) | - | |
| (Increase)/decrease in other assets | - | (41,753) | - | - |
| Increase in current tax assets | (4,576) | - | - | - |
| Decrease in deferred tax assets | - | - | - | 446,191 |
| Increase/(decrease) in payables | 87,946 | 731,141 | 227,258 | 1,909,329 |
| Increase/(decrease ) in current tax liabilities | 33,257 | 225,533 | - | 9,557 |
| Decrease in provisions | - | - | - | (171,880) |
| Increase/(decrease) in deferred tax liabilities | 11,955 | - | (72,245) | - |
| Net cash provided by/(used in) operating activities | 2,904,669 | 772,233 | (316,624) | (418,490) |

**b) Acquisition of Entities**

On 14 February 2008, Atos Wellness Pte Ltd acquired 100% if the issued share capital of Atos Consumer Products Pte Ltd, Slimcare Studio Pte Ltd and Slimline Studio Pte Ltd for Singapore $1 each. The effective date of the acquisition was 1 January 2008. See Note 34 for further details.

On 14 February 2008, the parent company acquired 100% of Inahamani Pte Ltd for Singapore $1. The effective date of acquisition was 1 January 2008. See note 34 for further details.

**NOTE 29: CASH FLOW INFORMATION (CONT'D)**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| On 14 July 2006, the parent company acquired the assets of Inspired Life, a health club in Perth, Australia. Details of the acquisition are: | | | | |
| Consideration: | | | | |
| Cash | - | - | - | 381,455 |
| Total | - | - | - | 381,455 |
| On 31 July 2006, the parent company acquired 51% of the issued capital of Body Contours Pte Ltd. Details of the acquisition are: | | | | |
| Consideration: | | | | |
| Cash | - | - | - | 1,054,864 |
| Settlement in issue of 4,921,906 shares at A$0.30 | - | - | - | 1,476,572 |
| Deferred Settlement | - | - | - | 2,531,436 |
| | - | - | - | 5,062,872 |
| On 16 August 2006, the parent company acquired 100% equity interest in Bodycure Oberusal Therapy Centre in Germany. Details of the acquisition are: | | | | |
| Consideration: | | | | |
| Cash (Euro 135,000) | - | - | - | 224,895 |
| Settlement in issue of 251,820 shares at A$0.30 (Euro 45,000) | - | - | - | 75,546 |
| Total (Euro 180,000) | - | - | - | 300,441 |
| On 16 August 2006, the parent company acquired the intellectual property of Bodycure GmBH in Germany. Details of the acquisition are: | | | | |
| Consideration: | | | | |
| Cash (Euro 55,000) | - | - | - | 92,334 |
| Deferred Settlement – Cash (Euro 23,836) | - | - | - | 39,614 |
| – Cash or Shares (Euro 130,000) | - | - | - | 216,052 |
| Total (Euro 208,836) | - | - | - | 348,000 |
| On 30 April 2007, 304,545 shares @ $0.165 were issued to Frank Lowas, as final consideration for the acquisition of Swandale. | - | - | - | 50,250 |

**c) Disposal of Entities**

| | | | | |
|---|---|---|---|---|
| On 21 December 2007, Medec Australia Pty Ltd was sold for $10. Medec Australia Pty Ltd was a subsidiary of Atos Wellness Limited. Aggregate details of this transaction are: | | | | |
| Disposal price | - | - | 10 | - |
| Cash consideration | - | - | 10 | - |
| Net (loss)/gain on disposal | - | - | (1,356,826) | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 29: CASH FLOW INFORMATION (CONT'D)

**d. Non-cash Financing and Investing Activities**

i. Share issue

97,656,250 shares were issued as consideration for the purchase of Atos Wellness Pte Ltd, a company incorporated in Singapore. The share issue was based on the fair value of the company which was determined by the share price of the parent entity on the date of acquisition of $0.05 per share on the existing 72,553,278 shares on issue on that date. See note 34 for further details.

ii. During the year the consolidated group acquired plant and equipment with an aggregate value of $97,285 (2007: $195,232) by means of hire purchases. These acquisitions are not reflected in the cash flow statement.

### NOTE 30 : SHARE BASED PAYMENTS

There are no share-based payment arrangements existing at 30 June 2008:

| | Consolidated Group | | | | Parent Entity | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | No. of Options | Weighted Average Exercise Price $ | No. of Options | Weighted Average Exercise Price $ | No. of Options | Weighted Average Exercise Price $ | No. of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | - | - | 875,000 | 0.20 | | | 875,000 | 0.20 |
| Granted | - | - | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - | - | - |
| Expired | - | - | (875,000) | 0.20 | | | (875,000) | 0.20 |
| Outstanding at year-end | - | - | - | | - | - | - | - |
| Exercisable at year-end | - | - | - | | - | - | - | - |

Included under employee benefits expense in the income statement is $nil (2007: $nil)

No shares were issued during the year that were granted as compensation (2007: Lloyd Halvorson was issued 121,000 shares at a value of $0.09 ($10,890) as part of his remuneration).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 31: EVENTS AFTER THE BALANCE SHEET DATE

On 4 August 2008, the Group issued 1,250,000 fully paid ordinary shares at an issue price of $0.06 in consideration for investor relations services provided to the Group. The value of the services provided was $75,000. The shares have been placed in voluntary escrow until 31 July 2009.

On 21 September 2008, Atos Wellness Pte Ltd ("Atos") entered into a contract to acquire 40% of the issued capital of Bionic Care GmbH for an initial payment of €120,000. The remainder of the total purchase price of €800,000 will be paid out of the net profits of the company. Should the company achieve €1 million profit before taxes in 2010 Atos will pay an additional €400,000 in March 2011 and should the company achieve €1 million profit before taxes in 2011 Atos will pay an additional €400,000 in March 2012.

On 7 October 2008, the Group issued 3,300,000 fully paid ordinary shares at an issue price of $0.06 pursuant to a convertible loan agreement between the company and United Auto Co Pte Ltd. On the same day, the Group issued 2,066,667 fully paid ordinary shares at an issued price of $0.06 to provide funding for working capital. The shares have been placed in voluntary escrow until 2 September 2009 and a holding lock has been placed on these shares.

There were no other material events occurring after the balance sheet date.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| **NOTE 32: RELATED PARTY TRANSACTIONS** | | | | |
| Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. | | | | |
| Transactions with related parties: | | | | |
| **(i) Director related entities** | | | | |
| — Rental of offices at a commercial rental charge to Medec International Pty Ltd, from a related party of J. Plattner a director. | - | 24,000 | - | - |
| — Accounting Fees paid to Cimetta & Associates, an entity associated with a director, Mr G Cimetta | - | 4,173 | - | - |
| The following transactions are associated with Mr Ananda Rajah: | | | | |
| — Inventories purchased from related companies: | | | | |
| - A-Quest Pte Ltd | 13,695 | - | - | - |
| - Atos Consumer Products Pte Ltd | 1,219,214 | 600,304 | - | - |
| - Slimline Studio Pte Ltd | - | 1,798 | - | - |
| - Ryan's Pte Ltd | 7,865 | - | - | - |
| — Sales to related companies: | | | | |
| - The Ultimate Pte Ltd | 52,908 | - | - | - |
| - Atos Consumer Products Pte Ltd | - | 42,790 | - | - |
| - Trade debtors at 30 June | - | 41,108 | - | - |
| — Other income received from related companies: | | | | |
| - Slimline Studio Pte Ltd | 546,729 | - | - | - |
| — Consultancy fees paid to related companies: | | | | |
| - Unique Slim Care Studio Pvt Ltd | 43,429 | - | - | - |
| — Fixed assets purchased from related companies: | | | | |
| - Slimcare Studio Pte Ltd | - | 247,386 | - | - |
| - Slimline Studio Pte Ltd | - | 100,093 | - | - |

**NOTE 32: RELATED PARTY TRANSACTIONS (CONT'D)**

| | | | | |
|---|---|---|---|---|
| — Rental income from related companies: | | | | |
| - The Ultimate Pte Ltd | 2,335 | - | - | - |
| — Loans to/(from) other related companies | | | | |
| - Atos Group Pte Ltd | 412,334 | 420,255 | - | - |
| - Absolute Care Sanctuary Pte Ltd | 274,020 | - | - | - |
| - A Quest Pte Ltd | 172,159 | - | - | - |
| - Atoz Performance Pte Ltd | 1,246 | - | - | - |
| - Beverly Hill Pte Ltd | 4,680 | - | - | - |
| - Chantique Lifestyle Pte Ltd | 6,897 | - | - | - |
| - I Spa Pte Ltd | 93,683 | - | - | - |
| - Matahari Spa Pte Ltd | 315,095 | (686) | - | - |
| - Medec Systems Pte Ltd | 353,996 | 8,988 | - | - |
| - Slimrite Pte Ltd | 36,680 | - | - | - |
| - The Ultimate Pte Ltd | 118,883 | 114,780 | - | - |
| - Unique Slim Care Studio Pte Ltd | 241,209 | - | - | - |
| - Unisense Sdn Bhd | 7,832 | - | - | - |
| - Atos Medic Pte Ltd | - | 36,529 | - | - |
| - Inahamani Pte Ltd | - | 93,559 | - | - |
| - Slimcare Studio Pte Ltd | - | 6,632 | - | - |
| - Slimline Studio Pte Ltd | - | 306,819 | - | - |
| - Atos Consumer Products Pte Ltd | - | (145,664) | - | - |
| - The Aesthetics Clinic Pte Ltd | (52,744) | - | - | - |

**(ii) Transactions within the wholly owned group**

| | | | | |
|---|---|---|---|---|
| Administration fees and rentals are charged by Medec International Pty Ltd to other group entities for the provision of office and administration services. | | | | |
| On the 30th April 2007, 304,545 shares @ $0.165 were issued to Frank Lowas, as final consideration for the acquisition of Swandale | - | 50,250 | - | - |
| Rental of offices & leasing of equipment at a commercial leasing charge to Medec Australia, from the Chief Executive Officer of Medec Australia, Stephen Falkiner's private company Emil Lux (Aust) Pty Ltd | - | 46,000 | - | - |
| Contractor's payments made to Stephen Falkiner, CEO of Medec Australia | - | 15,000 | - | - |
| A loan agreement with ATOS Consumer Products Pte Ltd has been established for A$500,000 with ten draw downs of A$50,000 per month commencing August 2007. | | | - | - |
| Goods are sold between the Australian and European manufacturing and marketing entities within the group. | | | | |
| Software licence fees are charged by Medec International Pty Ltd to the European branch operations on a product unit sale basis. | | | | |
| Acquisition of the 100% equity interest in Bodycure Deutschland GmbH (formerly Bodycure Oberusal) from Frank Welsch Lehmann for consideration of Euro180,000 (A$300,000) | - | - | - | 300,000 |

**NOTE 32: RELATED PARTY TRANSACTIONS (CONT'D)**

| | | | | |
|---|---|---|---|---|
| Acquisition of 51% equity interest in Body Contours Pte Ltd for a total consideration of $5,062,872 from Ananda Rajah. | | | | |
| Acquisition of 24.5% equity interest in Body Contours Pte Ltd for a total consideration of $ 2,372,690 from Ananda Rajah. Refer Note 29. | - | - | - | 2,372,690 |
| Dividends received from Body Contours Pte Ltd S$428,400 (A$346,398) | - | - | 48,140 | 346,398 |
| A credit facility dated 24 September 2004 with J & M Plattner for a loan of $500,000, expiring on 29 September 2007. At 30 June 2007, the balance owing was nil. | - | - | - | - |
| **(iii) Key Management Personnel** | | | | |
| Directors fees owing to Joseph Plattner, a former director | 48,000 | - | 48,000 | - |
| Loan to director of Atos Wellness Pte Ltd | | | | |
| - Chua Soo Lim | 65,716 | - | - | - |
| Loan (from) directors of Body Contours Pte Ltd | | - | - | - |
| - Ananda Rajah | (67,394) | - | - | - |
| Loan (from) directors of Body Contours Wellness Spa Sdn Bhd | | - | - | - |
| - Jane Kang Yein Mei | (298,523) | - | - | - |

**NOTE 33: FINANCIAL RISK MANAGEMENT**

a. **Financial Risk Management Policies**

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, Bank loans, leases and hire purchases.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

i. Treasury Risk Management

Senior executives of the group meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The committee's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The finance committee operates under policies approved by the board of directors. Risk management policies are approved and reviewed by the Board on a regular basis. These include the use of credit risk policies and future cash flow requirements.

ii. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2008 approximately 65% (2007: 18%) of group debt is fixed. For further details on interest rate risk refer to Note 33(b)(i) & (ii).

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. Refer to Note 33(b)(i) for further details.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 33: FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Collateral has been given in the form of joint and several personal guarantees from Ananda Rajah and Pathma Ayadurai, directors of Atos Wellness Pte Ltd in respect of bank loans in the name of Atos Wellness Pte Ltd and its subsidiaries. Should Atos Wellness Pte Ltd be unable to pay the outstanding debt within the agreed terms, this amount will be settled by the guarantors. These loans are also secured by first registered mortgage over property owned by Inahamani Pte Ltd. A loan facility in the name of Atos Wellness Pte Ltd is secured by property owned by Atos Group Pte Ltd, a related company in which Ananda Rajah and Pathma Ayadurai have an interest.

There are no other material amounts of collateral held as security at 30 June 2008.

Credit risk is managed on a group basis and reviewed regularly by senior executives. It arises from exposures to customers as well as through certain derivative financial instruments and deposits with financial institutions.

The senior executives monitor credit risk by actively assessing the rating quality and liquidity of counter parties:

— only banks and financial institutions with an 'A' rating are utilised;

— all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

— customers that do not meet the group's strict credit policies may only purchase in cash or using recognised credit cards.

The credit risk for counterparties included in trade and other receivables at 30 June 2008 is detailed below:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **Trade and other receivables** | | | | |
| Counterparties not rated | 962,058 | 134,430 | - | - |
| Total | 962,058 | 134,430 | - | - |

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

Price risk

The group is not materially exposed to commodity price risk.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 33: FINANCIAL RISK MANAGEMENT

b. **Financial Instruments**

i. **Financial instrument composition and maturity analysis:**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

| | Weighted Average Interest Rate | Floating Interest Rate | Fixed Interest Rate | | Non - Interest Bearing | TOTAL |
|---|---|---|---|---|---|---|
| | | | Within 1 year | 1 to 5 years | | |
| **2008** | **%** | **$** | **$** | **$** | **$** | **$** |
| **Financial Assets** | | | | | | |
| Cash | | 1,888,475 | - | - | - | 1,888,475 |
| Receivables | | - | - | - | 2,732,066 | 2,732,066 |
| Inventories | | - | - | - | 2,077,857 | 2,077,857 |
| Current tax assets | | - | - | - | 17,503 | 17,503 |
| Other financial assets | | - | - | - | 110,108 | 110,108 |
| **Total Financial Assets** | | 1,888,475 | - | - | 4,937,534 | 6,826,009 |
| **Financial Liabilities** | | | | | | |
| Trade & sundry payables | | - | - | - | 10,621,439 | 10,621,439 |
| Lease liabilities | 6.0% | - | 266,447 | 258,295 | - | 524,742 |
| Bank loans & overdrafts | 4.2% | - | 532,727 | 1,807,055 | - | 2,339,782 |
| Other | | - | - | - | 934,406 | 934,406 |
| **Total Financial Liabilities** | | - | 799,174 | 2,065,350 | 11,555,845 | 14,420,369 |

| | Weighted Average Interest Rate | Floating Interest Rate | Fixed Interest Rate | | Non - Interest Bearing | TOTAL |
|---|---|---|---|---|---|---|
| | | | Within 1 year | 1 to 5 years | | |
| **2007** | **%** | **$** | **$** | **$** | **$** | **$** |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | | - | - | - | 125,081 | 125,081 |
| Receivables | | - | - | - | 1,163,745 | 1,163,745 |
| Inventories | | - | - | - | 349,928 | 349,928 |
| **Total Financial Assets** | | - | - | - | 1,638,754 | 1,638,754 |
| **Financial Liabilities** | | | | | | |
| Trade & sundry payables | | - | - | - | 877,492 | 877,492 |
| Lease liabilities | 5.5% | - | 57,834 | 58,373 | - | 116,207 |
| Bank loans & overdrafts | 7.0% | - | 136,326 | 398,543 | - | 534,869 |
| Other | | - | - | - | 206,713 | 206,713 |
| **Total Financial Liabilities** | | - | 194,160 | 456,916 | 1,084,205 | 1,735,281 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 33: FINANCIAL RISK MANAGEMENT

ii. **Net Fair Values**

The net fair values of:

— Term receivables, government and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

— Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

— Debentures, bills of exchange and promissory notes which are traded on organised financial markets, are based on the quoted market offer price at balance date adjusted for transaction costs expected to be incurred.

— Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.

— Forward exchange contracts are the recognised unrealised gain or loss at balance date determined from the current forward exchange rates for contracts with similar maturities.

— Interest rate swaps are the present value of the future net interest cash flows.

— Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Carrying Amount $** | **Net Fair Value $** | **Carrying Amount $** | **Net Fair Value $** |
| Financial Assets | | | | |
| Cash and cash equivalents | 1,888,475 | 1,888,475 | 125,081 | 125,081 |
| Loans and receivables | 2,720,456 | 2,720,456 | 1,163,745 | 1,163,745 |
| Inventories | 2,077,857 | 2,077,857 | 349,928 | 349,928 |
| Other financial assets | 127,611 | 127,611 | - | - |
| | 6,814,399 | 6,814,399 | 1,638,754 | 1,638,754 |
| Financial Liabilities | | | | |
| Trade & sundry payables | 10,621,439 | 10,621,439 | 877,492 | 877,492 |
| Lease liabilities | 524,742 | 524,742 | 116,207 | 116,207 |
| Bank loans & overdrafts | 2,339,782 | 2,339,782 | 534,869 | 534,869 |
| Other liabilities | 934,406 | 934,406 | 206,713 | 206,713 |
| | 14,420,369 | 14,420,369 | 1,735,281 | 1,735,281 |

Fair values are materially in line with carrying values.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 33: FINANCIAL RISK MANAGEMENT**

iii. *Sensitivity Analysis*

*Interest Rate Risk, Foreign Currency Risk and Price Risk*

*The group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.*

*Interest Rate Sensitivity Analysis*

*At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:*

| | **Consolidated Group** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| Change in profit | | | | |
| — Increase in interest rate by 1% | (8,382) | - | - | - |
| — Decrease in interest rate by 1% | 8,382 | - | - | - |
| Change in Equity | | | | |
| — Increase in interest rate by 1% | (8,382) | - | - | - |
| — Decrease in interest rate by 1% | 8,382 | - | - | - |

*Foreign Currency Risk Sensitivity Analysis*

At 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Singapore Dollar, with all other variables remaining constant is as follows:

| | **Consolidated Group** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| Change in profit | | | | |
| — Improvement in AUD to SGD by 5% | (34,273) | - | (129) | (15,529) |
| — Decline in AUD to SGD by 5% | 34,273 | - | 129 | 15,529 |
| Change in Equity | | | | |
| — Improvement in AUD to SGD by 5% | (71,436) | (80,559) | (129) | (15,529) |
| — Decline in AUD to SGD by 5% | 71,436 | 80,559 | 129 | 15,529 |

At 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro, with all other variables remaining constant is as follows:

| | **Consolidated Group** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| Change in profit | | | | |
| — Improvement in AUD to EUR by 5% | (90) | - | (90) | (1,129) |
| — Decline in AUD to EUR by 5% | 90 | - | 90 | 1,129 |
| Change in Equity | | | | |
| — Improvement in AUD to EUR by 5% | (51,118) | - | (90) | (1,129) |
| — Decline in AUD to EUR by 5% | 51,118 | - | 90 | 1,129 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 33: FINANCIAL RISK MANAGEMENT

At 30 June 2008, the Group had the following exposure to Singapore $ foreign currency that is not designated in cash flow hedges:

| | | | | |
|---|---|---|---|---|
| Financial Assets | | | | |
| Cash and cash equivalents | 1,787,436 | 125,081 | 2,692 | 263,106 |
| Trade and other receivables | 5,030,889 | 1,017,395 | - | - |
| Inventories | 1,532,183 | 349,928 | - | - |
| Other financial assets | 17,503 | - | - | - |
| | 8,368,011 | 1,492,404 | 2,692 | 263,106 |
| Financial Liabilities | | | | |
| Trade and sundry payables | 4,801,110 | 731,142 | - | - |
| Lease liabilities | 524,742 | 116,207 | - | - |
| Bank loans & overdrafts | 2,303,346 | 534,869 | - | - |
| Other | 934,406 | 206,713 | - | - |
| | 8,563,604 | 1,588,931 | - | - |
| Net exposure | (195,593) | (96,527) | 2,692 | 263,106 |

At 30 June 2008, the Group had the following exposure to Euro € foreign currency that is not designated in cash flow hedges:

| | | | | |
|---|---|---|---|---|
| Financial Assets | | | | |
| Cash and cash equivalents | 14,929 | - | 11,406 | 23,697 |
| Trade and other receivables | 856,707 | - | - | - |
| Inventories | 365,636 | - | - | - |
| | 1,237,272 | - | 11,406 | 23,697 |
| Financial Liabilities | | | | |
| Trade and sundry payables | 3,193,318 | - | - | - |
| Interest bearing loans and borrowings | 36,436 | - | - | - |
| | 3,229,754 | - | - | - |
| Net exposure | (1,992,482) | - | 11,406 | 23,697 |

*Price Risk Sensitivity Analysis*

As at 30 June 2008, the group is not exposed directly to fluctuations in commodity prices. Accordingly, there is no material quantifiable change in profit or equity as a result of fluctuations in commodity prices.

The above interest rate, foreign exchange rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 34: BUSINESS COMBINATIONS

**a. Atos Wellness Pte Ltd**

On 31 January 2008, the parent entity acquired 100% of the legal subsidiary Atos Wellness Pte Ltd, a company incorporated in Singapore with effect from 1 January 2008.

While the legal entity acquired as a result of the acquisition is set out above, this transaction has been accounted for as a reverse acquisition.

These financial statements therefore represent a continuation of the legal subsidiary, Atos Wellness Pte Ltd, and the income statement for this financial period incorporates consolidated results for Atos Wellness Pte Ltd for the financial period and the results of Atos Wellness Limited and its controlled entities from the date of acquisition of 1 January 2008.

This has resulted in the consolidated Balance Sheet reflecting the historial assets, liabilities and equity of Atos Wellness Pte Ltd and the cost of the combination being recognised at fair value of the net assets of Atos Wellness Limited at the date of acquisition.

The total cost of the combination was $3,627,664 and comprised the entire issued capital at the date of acquisition of 72,553,278 ordinary shares in Atos Wellness Limited (deemed value $0.05 per share). The deemed value was determined by reference to the share price on the date of acquisition.

The fair value of the identifiable assets and liabilities of Atos Wellness Limited and its controlled entities as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 1,301,321 | 1,301,321 |
| Receivables | | 1,873,117 | 1,873,117 |
| Inventories | | 1,323,265 | 1,323,265 |
| Property, plant and equipment | | 1,899,367 | 1,899,367 |
| Deferred tax assets | | - | - |
| Other assets | | 200,000 | 3,029,643 |
| | | 6,597,070 | 9,426,713 |
| Payables | | 4,068,625 | 4,068,625 |
| Income in advance | | | |
| Financial liabilities | | 366,283 | 366,283 |
| Current tax liabilities | | 217,029 | 217,029 |
| Provisions | | - | - |
| Deferred tax liability | | 60,072 | 60,072 |
| Other liabilities | | 2,213,797 | 2,213,797 |
| | | (6,925,806) | (6,925,806) |
| **Fair value of identifiable net assets** | | (328,736) | |
| Minority interest in net assets | | (551,268) | |
| Goodwill arising on acquisition | 15 | 4,507,668 | |
| Total cost of the combination | | 3,627,664 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 1,301,321 | |
| Cash paid | | - | |
| Direct costs relating to the acquisition | | (27,023) | |
| Net consolidated cash inflow | | 1,274,298 | |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 34: BUSINESS COMBINATIONS (CONT'D)

From the date of acquisition, Atos Wellness Limited has contributed $791,166 to the net loss of the Group. If the acquisition had taken place on 1 July 2007, the Consolidated Group total revenue of the Group would be $25,820,360 and the Group net loss would be $6,524,889.

The goodwill arising on the transaction pertains to the directors assessment of the business valuation based on the future maintainable earnings of the Group. Goodwill represents the difference between the business valuation and the net tangible assets.

**b. Kooj Pte Ltd**

In July 2007, Atos Wellness Limited acquired 100% of the issued capital of Kooj Pte Ltd, a company incorporated in the republic of Singapore and engaged in the wellness industry, with an effective date of 1 July 2007.

The total cost of the combination was $26,657 and comprised the entire issued capital at the date of acquisition.

The fair value of the identifiable assets and liabilities of Kooj Pte Ltd as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 5,294 | 5,294 |
| Receivables | | 37,830 | 37,830 |
| Inventories | | 5,733 | 5,733 |
| Property, plant and equipment | | 125,183 | 125,183 |
| | | 174,040 | 174,040 |
| Payables | | 32,808 | 32,808 |
| Financial liabilities | | 11,928 | 11,928 |
| Lease liabilities | | 16,483 | 16,483 |
| Deferred tax liability | | 5,492 | 5,492 |
| | | 66,711 | 66,711 |
| **Fair value of identifiable net assets** | | 107,329 | |
| Discount arising on acquisition | 15 | (80,672) | |
| Total cost of the combination | | 26,657 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 5,294 | |
| Cash paid | | (26,657) | |
| Direct costs relating to the acquisition | | (155) | |
| Net consolidated cash outflow | | (21,518) | |

From the date of acquisition, Kooj Pte Ltd has contributed $140,200 to the net loss of the Group.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 34: BUSINESS COMBINATIONS (CONT'D)

**c. Atos Consumer Products Pte Ltd**

On 14 February 2008, Atos Wellness Pte Ltd acquired 100% of the issued share capital of Atos Consumer Products Pte Ltd, a company incorporated in the republic of Singapore and engaged in the wellness industry, for a cash consideration of Singapore $1.

The total cost of the combination was $1 and comprised the entire issued capital at the date of acquisition.

The fair value of the identifiable assets and liabilities of Atos Consumer Products Pte Ltd as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 1,639 | 1,639 |
| Receivables | | 1,461,627 | 1,461,627 |
| Inventories | | 708,470 | 708,470 |
| Property, plant and equipment | | 4,751 | 4,751 |
| | | 2,176,487 | 2,176,487 |
| Payables | | 1,911,227 | 1,911,227 |
| Financial liabilities | | 235,950 | 235,950 |
| Lease liabilities | | - | - |
| Current tax liability | | 238,401 | 238,401 |
| | | 2,385,578 | 2,385,578 |
| **Fair value of identifiable net assets** | | (209,091) | |
| Goodwill arising on acquisition | 15 | 209,092 | |
| Total cost of the combination | | 1 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 1,639 | |
| Cash paid | | (1) | |
| Direct costs relating to the acquisition | | - | |
| Net consolidated cash inflow | | 1,638 | |

From the date of acquisition, Atos Consumer Products Pte Ltd has contributed $249,465 to the net profit of the Group.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 34: BUSINESS COMBINATIONS (CONT'D)

**d. Slimcare Studio Pte Ltd**

On 14 February 2008, Atos Wellness Pte Ltd acquired 100% of the issued share capital of Slimcare Studio Pte Ltd, a company incorporated in the republic of Singapore and engaged in the wellness industry, for a cash consideration of Singapore $1.

The total cost of the combination was $1 and comprised the entire issued capital at the date of acquisition.

The fair value of the identifiable assets and liabilities of Slimcare Studio Pte Ltd as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 7,315 | 7,315 |
| Receivables | | 481,134 | 481,134 |
| Inventories | | - | - |
| Property, plant and equipment | | - | - |
| | | 488,449 | 488,449 |
| Payables | | 721,177 | 721,177 |
| Financial liabilities | | - | - |
| Lease liabilities | | 18,617 | 18,617 |
| Current tax liability | | 91,671 | 91,617 |
| | | 831,465 | 831,465 |
| **Fair value of identifiable net assets** | | (343,016) | |
| Goodwill arising on acquisition | 15 | 343,017 | |
| Total cost of the combination | | 1 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 7,315 | |
| Cash paid | | (1) | |
| Direct costs relating to the acquisition | | - | |
| Net consolidated cash inflow | | 7,314 | |

From the date of acquisition, Slimcare Studio Pte Ltd has contributed $114,692 to the net profit of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

**NOTE 34: BUSINESS COMBINATIONS (CONT'D)**

**e. Slimline Studio Pte Ltd**

On 14 February 2008, Atos Wellness Pte Ltd acquired 100% of the issued share capital of Slimline Studio Pte Ltd, a company incorporated in the republic of Singapore and engaged in the wellness industry, for a cash consideration of Singapore $1.

The total cost of the combination was $1 and comprised the entire issued capital at the date of acquisition.

The fair value of the identifiable assets and liabilities of Slimline Studio Pte Ltd as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 22,235 | 22,235 |
| Receivables | | 673,860 | 673,860 |
| Inventories | | - | - |
| Property, plant and equipment | | 41,683 | 41,683 |
| | | 737,778 | 737,778 |
| Payables | | 598,075 | 598,075 |
| Financial liabilities | | 87,417 | 87,417 |
| Lease liabilities | | 57,442 | 57,442 |
| Current tax liability | | 128,515 | 128,515 |
| | | 871,449 | 871,449 |
| **Fair value of identifiable net assets** | | (133,671) | |
| Goodwill arising on acquisition | 15 | 133,672 | |
| Total cost of the combination | | 1 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 22,235 | |
| Cash paid | | (1) | |
| Direct costs relating to the acquisition | | - | |
| Net consolidated cash inflow | | 22,234 | |

From the date of acquisition, Slimline Studio Pte Ltd has contributed $270,103 to the net profit of the Group.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 34: BUSINESS COMBINATIONS (CONT'D)

**f. Inahamani Pte Ltd**

On 1 January 2008, Atos Wellness Limited acquired 100% of the issued share capital of Inahamani Pte Ltd, a company incorporated in the republic of Singapore and engaged in the wellness industry, for a cash consideration of Singapore $1.

The total cost of the combination was $1 and comprised the entire issued capital at the date of acquisition.

The fair value of the identifiable assets and liabilities of Inahamani Pte Ltd as at the date of acquisition were:

| | Note | Recognised on acquisition | Carrying value |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents | | 278,795 | 278,795 |
| Receivables | | 306,581 | 306,581 |
| Inventories | | 333,141 | 333,141 |
| Property, plant and equipment | | 2,729.247 | 2,729.247 |
| Current tax assets | | 12.927 | 12.927 |
| | | 3,660,691 | 3,660,691 |
| Payables | | 1,490,297 | 1,490,297 |
| Financial liabilities | | 1,635,378 | 1,635,378 |
| Lease liabilities | | 96,066 | 96,066 |
| Deferred tax liabilities | | 3,580 | 3,580 |
| | | 3,225,321 | 3,225,321 |
| **Fair value of identifiable net assets** | | 435,370 | |
| Goodwill arising on acquisition | 15 | (435,369) | |
| Total cost of the combination | | 1 | |
| The cash outflow on acquisition is as follows: | | | |
| Net cash acquired with the subsidiary | | 278,795 | |
| Cash paid | | (1) | |
| Direct costs relating to the acquisition | | - | |
| Net consolidated cash inflow | | 278,794 | |

From the date of acquisition, Inahamani Pte Ltd has contributed $19,690 to the net profit of the Group.

### NOTE 35. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

| New Standard | Superseeded Standard | Explanation of amendments not yet effective | Effective date (reporting periods ending on or after) | Impact of New Standard | Expected date of adoption |
|---|---|---|---|---|---|
| AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (June 2007) | AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July | AASB 1 (June 2007) incorporates amendments arising from Interpretation 12 Service Concession Arrangements. | 31 December 2008 | This standard is not expected to have any impact on the entity's financial report. | 1 July 2008 |
| AASB 3 Business Combinations (March 2008) | AASB 3 Business Combinations (April 2007) | AASB 3 (March 2008) amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and and contingent considerations. AASB 3 also replaces the term "Minority Interest" with "Non-controlling Interest". This standard can be early adopted, but only for reporting periods that begin on or after 30 June 2007.<br>AASB 3 is applied prospectively. | Business combinations occurring on or after 30 June 2010 | The financial effect of this standard has not been calculated. | 1 July 2010 |
| AASB 8 Operating Segments (February 2007) | AASB 114 Segment Reporting (September 2005) | AASB 8 supersedes AASB 114 (September 2005). AASB 8 has a different scope of application to AASB 114; it is applicable only to listed entities and those in the process of listing, and requires that segment information be disclosed using the management approach. This may result in a different set of segments being identified than those previously disclosed under AASB 114. | 31 December 2009 | AASB 8 is a disclosure standard therefore has no impact on the entity's reported position. | 1 July 2009 |
| AASB 123 Borrowing Costs (June 2007) | AASB 123 Borrowing Costs (July 2004) | AASB 123 (June 2007) incorporates amendments removing the option to immediately expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. | 31 December 2009 | As the entity does not have borrowings associated with qualifying assets, these amendments are not expected to have any impact on the entity's financial report. | 1 July 2009 |

## NOTE 35. CHANGE IN ACCOUNTING POLICY (CONT'D)

| New Standard | Superseeded Standard | Explanation of amendments not yet effective | Effective date (reporting periods ending on or after) | Impact of New Standard | Expected date of adoption |
|---|---|---|---|---|---|
| AASB 101 Presentation of Financial Statements (September 2007) | AASB 101 Presentation of Financial Statements (July 2007) | AASB 101 (September 2007) contains a number of changes from the previous AASB 101. The main changes are to require that an entity must:<br>• present all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income<br>• present an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements<br>• disclose income tax relating to each component of other comprehensive income<br>• disclose reclassification adjustments relating to components of other comprehensive income<br>There are other changes to terminology, however these are not | 31 December 2009 | The changes to AASB 101 (September 2007) do not affect recognition or measurement criteria, therefore the changes are not expected to have any impact on the entity's reported financial position. | 1 July 2009 |
| AASB 127 Consolidated and Separate Financial Statements (March 2008) | AASB 127 Consolidated and Separate Financial Statements (July 2004) | AASB 127 (March 2008) amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes were made to this standard affecting acquisitions and disposals which do not result in a change of control, partial disposals where control is lost, attribution of profit or loss to non-controlling interests and loss of significant influence or control in relation to Associates and Joint Ventures.<br>AASB 127 replaces the term “Minority Interest” with the “Non-controlling Interest”.<br>AASB 127 is applied retrospectively, with certain exceptions relating to the significant changes made in this revision. | 30 June 2010 | As the transitional provision of AASB 127 provide that the changes to the recognition and measurement criteria within AASB 127 resulting from this revision do not apply retrospectively to business combinations effected prior to the amendments being adopted, this standard is not expected to have any impact on the entity's financial report. | 1 July 2009 |
| AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] | Various | AASB 2007-3 consequentially amends a number of standards arising from the issue of AASB 8. These amendments result from the changing the name of the segment reporting standard to AASB 8. | 31 December 2009 | AASB 2007-3 is a disclosure standard and therefore has no impact on the entity's reported position or performance. | 1 July 2009 |

### NOTE 35. CHANGE IN ACCOUNTING POLICY (CONT'D)

| New Standard | Superseeded Standard | Explanation of amendments not yet effective | Effective date (reporting periods ending on or after) | Impact of New Standard | Expected date of adoption |
|---|---|---|---|---|---|
| AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] | Various | The revision of AASB 123 necessitates consequential amendments to a number of existing Standards. The amendments principally remove references to expensing borrowing costs on qualifying assets, as AASB 123 was revised to require such borrowing costs to be capitalised. | 31 December 2009 | As the entity does not have borrowings associated with qualifying assets, these amendments are not expected to have any impact on the entity's financial report. | 1 July 2009 |
| AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 | Various | AASB 2007-8 consequentially amends a number of AASB's as a result of the reissue of AASB 101. Some of the changes include changing the terms:<br>• 'general purpose financial report' to 'general purpose financial statements'<br>• 'financial report' to 'financial statements'<br>in application paragraphs, where relevant, of Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. | 31 December 2009 | As the changes do not affect recognition or measurement criteria, the changes are not expected to have any impact on the entity's reported financial position and performance. | 1 July 2009 |
| AASB 2008-1 Amendments to Australian Accounting Standard – Sharebased Payments: Vesting Conditions and Cancellations [AASB 2] | AASB 2 Share-based Payments | AASB 2008-1 was issued after the AASB made changes to AASB 2 Share Based Payments including:<br>• Clarifying that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions.<br>Cancellations, whether by the entity or by other parties, should be accounting for consistently. | 30 June 2010 | These amendments are not expected to have any impact on the entity's financial report. | 1 July 2009 |
| AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] | Various | AASB 2008-3 was issued after the AASB revised AASB 3 and AASB 127, as consequential amendments were necessary to other Australian Accounting Standards. | 30 June 2010 | See above for AASB 3 and AASB 127 information. | 1 July 2009 |

**NOTE 36: COMPANY DETAILS**

The registered office of the company is:

22 Letchworth Centre Avenue
SALTER POINT WA 6153

The principal places of business are:

— Atos Wellness Limited
22 Letchworth Centre Avenue
SALTER POINT WA 6153

— Atos Wellness Pte Ltd
No. 1 Tannery Road
#09-01/03, One Tannery
SINGAPORE 347719

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes (and remuneration disclosures that are contained in pages 6 & 7 of the Remuneration Report in the Directors Report), set out on pages 11 to 64, are in accordance with the Corporations Act 2001 and:

   (i) Comply with the Accounting Standards and the Corporations Regulations 2001; and

   (ii) Give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and the consolidated group

2. The Chief Executive Officer and Chief Finance Officer have each declared that:

   (i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (iii) the financial statements and notes for the financial year give a true and fair view;

3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director Ananda Rajah

Dated this 1st day of December 2008

Grant Thornton

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ATOS WELLNESS LIMITED

## Report on the Financial Report

We have audited the accompanying financial report of Atos Wellness Limited, (the company) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

## Electronic Presentation of Audited Financial Report

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

## Independence

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

## Basis for qualified auditor's opinion

*A limitation of scope of our work exists for the reasons described below:*

Comparative consolidated balances for the year ended 30 June 2007.

As discussed in note 34 "Business Combinations", on 31 January 2008, the parent entity acquired a wholly owned subsidiary Atos Wellness Pte Ltd a company incorporated in Singapore. The transaction was deemed a reverse acquisition and accounted for in accordance with AASB 3 "Business Combinations". Accordingly, the consolidated financial statements have been prepared as a continuation of the consolidated financial statements of Atos Wellness Pte Ltd. This company previously had a financial year ending 31 December. Audited financial statements were provided for the year ended 30 June 2008, however, no such audited financial statements were provided for the comparative year ended 30 June 2007. Due to this limitation in scope, we were unable to obtain sufficient appropriate audit evidence regarding the comparative information of Atos Wellness Pte Ltd for the reporting period 1 July 2006 to 30 June 2007 and express no opinion on them.

Atos Wellness Vienna

Atos Wellness Pte Ltd, registered and commenced branch operations in Vienna, Austria on 25 March 2008. Unaudited financial accounts provided by Management as at 30 June2008, showed the Branch having assets of $566,833AUD, liabilities of $496,125AUD and a net profit of $70,709AUD for the period 25 March 2008 to 30 June 2008.

The directors have not included the assets and liabilities or the result of the Branch in the Consolidated financial statements of the Group. We have also been unable to determine whether any contingent liabilities, commitments, warranties or guarantees relating to this branch exist.

### Bodycure Deutschland GmbH

At 30 June 2008, Atos Wellness Limited owned 49% of Bodycure Deutschland GmbH and accounted for this entity as an investment in an associate with all balances relating to this entity being written off at 30 June 2008. However this entity has not been audited and therefore we are unable to comment on the completeness of liabilities written off. In addition, we have been unable to determine whether any contingent liabilities, commitments, warranties or guarantees exist within Bodycure Deutschland GmbH to which Atos Wellness Limited may be liable.

### Receivables from related parties within the consolidated entity and receivables from subsidiaries within Parent Entity

As disclosed in Note 10 "Trade and Other Receivables" to the financial statements, the Consolidated entity has an amount of $2,104,430 receivable from related parties and the Parent entity has amounts receivable from wholly owned subsidiaries of $6,225,574. Australian Accounting Standard AASB 136 *Impairment of Assets* requires assets to be carried at no more than their recoverable amount. We have been unable to obtain sufficient appropriate audit evidence as to the recoverability of these amounts due from related parties and wholly owned subsidiaries and accordingly, we have been unable to determine whether the recoverable amount of these balances is at least equal to their carrying values. In the event that the carrying values of these assets exceed their recoverable amount, it would be necessary for the carrying values of these amounts from related parties and wholly owned subsidiaries to be written down to their recoverable amount.

## Qualified auditor's opinion

In our opinion, except for the effects of such adjustments above, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding the comparatives, and the matters commented upon above for the financial year ended 30 June 2008:

(a) the financial report of Atos Wellness Limited 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 2008 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Without further qualification to the audit opinion expressed above, attention is drawn to the following matters:

### Material uncertainty regarding continuation as a going concern

As a result of the matters described in Note 1 "Going Concern" in the financial report, there is the existence of a material uncertainty which may cast significant doubt about the parent company and the consolidated entity's ability to continue as a going concern and whether they will realise their assets, extinguish their liabilities and meet their commitments in the normal course of business and at the amounts stated in the financial report. The ability of the Group to continue as a going concern is dependent upon the continued support of its creditors, Singaporean based subsidiaries, bankers and the Group's major shareholder.

### Material uncertainty to the carrying value of intangibles

As referred to in Note 1 'Significant Accounting Judgements, Estimates and Assumptions' and Note 18 'Intangible Assets' to the financial statements, there are estimates and assumptions used to assess whether the carrying value of intangible assets is in excess of the recoverable amount of $3,995,494. There is significant risk that the estimates and assumptions may be different to actual outcomes due to changes in economic or market conditions and / or due to events beyond the control of management.

### Report on the Remuneration Report

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

### Auditor's Opinion

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

**GRANT THORNTON (WA) PARTNERSHIP**
Chartered Accountants

**M J Hillgrove**
**Partner**

Perth, 2 December 2008

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. **Shareholding**

a. **Distribution of Shareholders at 31 October 2008**

| Category (size of holding) | Number Ordinary Shares |
|---|---|
| 1 – 1,000 | 2,303 |
| 1,001 – 5,000 | 546,063 |
| 5,001 – 10,000 | 570,571 |
| 10,001 – 100,000 | 3,475,704 |
| 100,001 – and over | 179,431,553 |
| | 184,026,194 |

b. The number of shareholdings held in less than marketable parcels is 225 of 1,225,577 shares.

c. **20 Largest Shareholders — Ordinary Shares**

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | Retnam Siva Ananda R S | 71,992,187 | 39.12% |
| 2. | ANZ Nom Ltd | 46,697,214 | 25.38% |
| 3. | Ayadurai Pathma D/O S | 24,414,063 | 13.27% |
| 4. | Etron PL | 7,604,115 | 4.13% |
| 5. | Yan Chua Kim | 5,000,000 | 2.72% |
| 6. | Midterm Entps PL | 3,343,149 | 1.82% |
| 7. | NV Navigator Equity S | 3,000,000 | 1.63% |
| 8. | Plattner Joseph Anton | 2,783,333 | 1.51% |
| 9. | Wakabayashi Fund LLC | 1,250,000 | 0.68% |
| 10. | AH Khee | 1,250,000 | 0.68% |
| 11. | WC Inv PL | 1,182,501 | 0.64% |
| 12. | Rajah Siva Ananda A/L Retnam A/C | 1,146,851 | 0.62% |
| 13. | Frank Cannavo Inv PL F Cannavo Inv A/C | 1,000,000 | 0.54% |
| 14. | Werner Inge | 550,000 | 0.30% |
| 15. | A & A Cannavo Nom PL Anthony Meats S/F | 500,000 | 0.27% |
| 16. | Cannavo Frank | 500,000 | 0.27% |
| 17. | Heber R G | 500,000 | 0.27% |
| 18. | HSBC Custody Nom Aust | 462,419 | 0.25% |
| 19. | Tulsidas Pushpa | 421,906 | 0.25% |
| 20. | Seidel O | 400,000 | 0.22% |
| | | 173,997,738 | 94.57% |

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

d. The names of the substantial shareholders listed in the holding company's register as at 31 October 2008 are:

| | Ordinary Shares | |
|---|---|---|
| **Shareholder** | **Number** | **Percentage** |
| Retnam Siva Ananda R S | 71,992,187 | 39.12% |
| ANZ Nom Ltd | 46,697,214 | 25.38% |
| Ayadurai Pathma D/O S | 24,414,063 | 13.27% |

e. **Voting Rights**

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

Ordinary shares

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

2. The name of the company secretary is Ian Gregory
3. The address of the principal registered office in Australia is 22 Letchworth Centre Avenue, Salter Point, Western Australia. Telephone (08) 9258 9500.
4. Registers of securities are held at the following addresses

Western Australia Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

5. **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited. Stock code ATW.

6. **Unquoted Securities**

Shares subject to Escrow Period

48,828,125 fully paid ordinary shares subject to escrow until 4 August 2011. 2,000,000 fully paid ordinary shares subject to escrow until 12 June 2009.

## ASX BEST PRACTICE RECOMMENDATIONS

The Company is committed to protecting and enhancing shareholder value and adopting best practice governance policies and practices.

This corporate governance statement outlines the main corporate governance practices that were in place throughout the year which comply with the Australian Stock Exchange Corporate Governance Council recommendations.

The ASX Listing Rules require companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period.

These recommendations are guidelines designed to produce an outcome that is effective and of high quality and integrity. If a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the company's corporate governance practices depart from the recommendations, the board has offered full disclosure of the nature of, and the reason for, the adoption of its own practice.

***Principle 1 – Lay solid foundations for management and oversight***

***Role of the Board***

The board is the governing body of the company. The board and the company act within a statutory framework – principally the Corporations Act and also the constitution of the company. Subject to this statutory framework, the board has the authority and the responsibility to perform the functions, determine the policies and control the affairs of the Atos Wellness Limited group.

The board must ensure that Atos Wellness Limited acts in accordance with prudent commercial principles, and satisfies shareholders – consistent with maximising the company's long term value.

The primary responsibilities of the board include:

- Approving the direction, strategies and financial objectives of the company and ensuring appropriate resources are available
- Monitoring the implementation of those policies and strategies and the achievement of those financial objectives
- Monitoring compliance with control and accountability systems, regulatory requirements and ethical standards
- Ensuring the preparation of accurate financial reports and statements
- Review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance
- Reporting to shareholders and the investment community on the performance and state of the company
- Appoint the Chief Executive Officer and monitor performance of the Chief Executive Officer and senior executives
- Establish proper succession plans for management of the company
- Ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

Separate functions of the board and management existed and were practiced throughout the year.

***Principle 2 - Structure the board to add value***

***Board composition***

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive directors should serve at least 3 years and at the completion of the initial 3 years, the position of the director is reviewed.

The Board comprises one executive director and three non-executive directors. Details of the directors are set out in the Directors' Report.

***Nomination Committee.***

The functions of the nomination committee under are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to appoint a nomination committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

***independence of directors***

In considering the independence of directors, the Board refers to the criteria for independence as recommended by *Recommendation 2.1* of the commentary that supplements the Principles of Good Corporate Governance and Best Practice Recommendations as published by the ASX Corporate Governance Council ("Independence Criteria") and other facts, information and circumstances that the Board considers relevant.

The Board has reviewed the position and association of each of the four directors in office at the date of this report and considers that all three of the directors are independent.

Mr Cimetta has provided consultancy services to the company in the last three years. Accordingly, Mr Cimetta does not satisfy paragraph 3 of the criteria of independence as set out in Principle 2.1. Mr. Cimetta is not a substantial shareholder of the Company and meets all of the other Independence criteria. Having regard to issues of materiality, the board, considers that his consultancy relationship with the Company does not impede his ability to act in the best interests of the Company. The board considers that he demonstrates and consistently makes decisions and takes actions that are in the best interests of the company and its shareholders and in the circumstances considers the directors independent.

The Board considers that Mr Darling meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and no conflict of interest which could interfere with the exercise of independent judgment. Accordingly, he is considered to be independent.

The Board considers that Mr Getley meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and shareholder, and no conflict of interest which could interfere with the exercise of independent judgment. Accordingly, he is considered to be independent and meets the requirements of Recommendation 2.2. as an independent chair.

The roles of Chairman and Chief Executive Officer are exercised by different individuals, providing for clear division of responsibility at the head of the company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

***Retirement and re-election of directors***

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

***Independent professional advice***

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfill their duties and responsibilities as directors.

***Principle 3 – Promote ethical and responsible decision making***

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the Company's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors and employees are prohibited from short term or "active" trading in the Company's securities and are prohibited from dealing in the Company's securities whilst in possession of price sensitive information until it has been released to the market. The Company's Executive Director (or in his place the Chairperson) must also be notified of any proposed transaction.

The Company has a Code of Conduct to guide Directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives in

1) the practices necessary to maintain confidence in the company's integrity;
2) the responsibility and accountability of individuals for reporting; and
3) investigating reports of unethical practices.

The Company has made available a summary of its Code of Conduct and trading policy in this statement, but has not otherwise made this information publicly available.

***Principle 4 - Safeguard integrity in financial reporting***

It is the board's responsibility to ensure that an effective internal control framework exists within the entity. Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the reliability and integrity of reporting.

These include accounting, financial reporting and internal control policies and procedures which include

- appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

The Company does not have an audit committee as the Board considers it appropriate to meet as part of the meeting of the full board due to the size of its board. Meetings are held throughout the year between the Directors and Chief Financial Officer on audit committee matters and with the Company's external auditors to discuss ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

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

***Principle 5. Make timely and balanced disclosure***

The Company has in place a continuous disclosure policy which aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

***Principle 6 – Respect the rights of shareholders***

The company has a positive strategy to communicate with shareholders and actively promote shareholder involvement in the company. It aims to continue to increase and improve information available to shareholders on its website. All company announcements, presentations to analysts and other significant briefings are posted on the company's website after release to the Australian Stock Exchange.

The Board aims to ensure that shareholders are kept informed of all major developments of the Company.

Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance on an ongoing basis.

***Principle 7 – Recognise and manage risk***

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular financial reporting and appropriate budgeting ;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the Company.

The Chief Executive Officer and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

***Principle 8 – Encourage enhanced performance***

The Company has not conducted a performance evaluation of the members of the current Board during the reporting period in accordance with *Recommendation 8.1*. It was considered inappropriate as the Company has restructured its Board during the year and has relatively new members with the current directors being recently appointed.

To enable the performance of their duties, all directors:

- have access to management
- are provided with appropriate management information in a timely manner
- are able to seek independent advice at the Company's expense
- are entitled to request additional management information at any time

***Principle 9 – Remunerate fairly and responsibly***

Details of the Company's remuneration policies which form part of the "Remuneration Report" in the Directors' Report.

The functions of a remuneration committee are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Non-executive directors will be remunerated by directors' fees payable in cash and are not provided with retirement benefits (except in exceptional circumstances). Non-executive directors may receive equity based performance incentives. Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

***Principle 10 – Recognise the legitimate interests of shareholders***

The Company has a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.