



Fermiscan Holdings Limited

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ABN 51 000 689 725

## **ASX ANNOUNCEMENT**

**27 February 2009**

### **FERMISCAN HOLDINGS LIMITED**

ABN 51 000 689 725

### **PRELIMINARY FINAL REPORT FOR YEAR ENDED 31 DECEMBER 2008**

#### **Fermiscan business update**

- **Commercialisation of the Fermiscan Breast Cancer Test in Australia is on plan**
- **Completion of a large scale (2,000 patient) clinical trial program in May 2008**
  - **Reported an accuracy of 74% in identifying the presence of breast cancer in women under 70 years of age**
  - **Reported a negative predictive value of 99.5% (probability of no disease among patients with a negative test)**
- **Acquisition of Sydney Breast Clinic in June 2008**
  - **Largest private breast clinic in Australia**
  - **Fermiscan is conducting a further trial through the Sydney Breast Clinic patients to provide additional information to both Fermiscan and breast physicians on the potential value and practice of the Fermiscan Test**
- **Patent "Using hair to screen for breast cancer" granted in Japan**
  - **facilitates commencement of clinical research program for regulatory approval in Japan**
- **Completion of pilot study in Italy by the Piedmont Health Unit in Turin for which the results will be released shortly**
- **Development of further clinical study in Italy to support commercial development in Europe, targeting Italy as the first EU country to launch the Fermiscan Test**
- **Commencement of process for obtaining CE Mark registration of the Fermiscan Test in Europe with expected completion mid 2009**
- **Completion of User agreement with the Australian Synchrotron in Melbourne secures beam time locally for processing of samples**
- **User agreement with European Synchrotron Research Facility in France secures further beam time capacity**

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Fermiscan's principal activity is the commercialisation of an innovative non-invasive diagnostic test for the detection of breast cancer. The test is based on the discovery by an Australian scientist that a change can be detected in the molecular structure of hair from women with breast cancer and this change can be identified by using diffraction of X-rays generated in a synchrotron.

This test can potentially provide early detection of breast cancer with benefits for women's health including increased survival and treatment options. The greatest application for the Fermiscan Test is in women under 70 years of age and in particular for younger women, where mammography is generally unsuitable or not recommended.

The Fermiscan test is unique for several reasons. It is the first cancer test to use hair as the test tissue and it is the first human screening test to utilise synchrotron X-ray diffraction technology

The rollout of the Fermiscan test is being undertaken in two distinct phases. The first is the research, development and scientific validation phase, which has focused on performing patient trials and scientific studies to characterise and optimise the Fermiscan test in "real world" conditions. The second is the commercialisation phase, which is now underway following successful results in the clinical trial programme.

Fermiscan intends to commercialise this simple test for the presence of breast cancer shortly through a phased commercial launch of the test in Australia.

### **User agreement with the Australian Synchrotron in Melbourne secures beam time**

Fermiscan has concluded a commercial user agreement with the Australian Synchrotron in Melbourne. The agreement covers two years and provides for scheduled weekly access at the synchrotron which is Australia's newest and most advanced major research facility. The Fermiscan Breast Cancer Test uses synchrotron X-rays to detect altered molecular structure of hair which is associated with the presence of breast cancer.

The Australian Synchrotron is a world-class facility with a rapidly growing reputation for producing high-quality results. By the end of 2009, it will be the largest scientific user facility in the southern hemisphere. The synchrotron produces a highly intense source of light ranging from infrared to monochromatic X-rays. The unique properties of synchrotron light mean that results are far superior in accuracy, clarity, specificity and timeliness to those obtained using conventional X-ray equipment.

The Melbourne Synchrotron is one of the most advanced in the world and will further Fermiscan's scientific development and commercialisation of the Fermiscan Breast Cancer Test

### **Fermiscan Clinical Trial Program**

Fermiscan announced the results of a large scale (2,009 patient) clinical trial program in May 2008 which compared results from mammography and ultrasound with the Fermiscan Test.

- The analysis also showed that the test correctly identified breast cancer in women in the same age group in 74% of the cases
- The analysis of data from the trial program showed that the Fermiscan Test has a negative predictive value of 99.5% in correctly calling almost 1400 patients negative for breast cancer where the patient was less than 70 years of age
- The test correctly identified as negative for breast cancer 80 per cent of patients referred for a biopsy as a result of a suspicious mammogram or ultrasound. This highlights the potential value of the test in conjunction with current screening methods

The results demonstrated that the most significant potential application for the Fermiscan Test is for women less than 70 years of age and in particular for younger women, where mammography is generally less effective, or not generally performed (in women under 50). The accuracy level of the Fermiscan Test for this group was 77%. It is anticipated that the test will be initially used for younger women and those not undergoing current screening as an adjunct to existing screening tests for breast cancer.

Operational outcomes from the trial program included the optimisation of synchrotron beamlines to significantly improve resolution of the X-ray diffraction images, automation improvements to significantly enhance throughput, which will boost commercial capacity, securing the support of key medical and patient advocate groups, and development of expertise and know-how in hair collection and handling, loading and transportation of hair samples, and refinement of diffraction pattern analysis. Fermiscan's commitment to ongoing development and improvement of hardware, software and procedures will underpin the commercial delivery of the Fermiscan technology.

The trial program was overseen by an independent Human Research Ethics Committee which is registered with the National Health and Medical Research Council.

### **Acquisition of Sydney Breast Clinic**

Fermiscan acquired Sydney Breast Clinic Pty Limited in June 2008. The Clinic has been operating for over 30 years and is one of the largest diagnostic breast clinics in Australia, testing over 10,000 women annually who are referred by more than 3,000 general practitioners.

Sydney Breast Clinic commenced a trial of the Fermiscan Test aimed at familiarising healthcare practitioners and patients with the Test in November 2008. The trial is currently continuing and information from the trial is being used to further Fermiscan's understanding of the technology, allowing further refinements and developments.

This trial is a key step in Fermiscan's programme aimed at making the test commercially available to Australian women in 2009.

The Sydney Breast Clinic uses the gold standard triple test (medical history and clinical breast examination; mammography and ultrasound imaging; biopsy) and offers same day diagnosis and screening. The multidisciplinary team at the Clinic has over 55 staff including breast surgeons, breast physicians, radiologists, pathologists, radiographers, sonographers and nurses.

For Fermiscan, the acquisition of Sydney Breast Clinic has a strategic fit that aligns the objectives of both groups to improve health outcomes for women. Sydney Breast Clinic was a major participant in Fermiscan's successful validation trial. The continued assistance of Sydney Breast Clinic will significantly help the development and commercialisation of the Fermiscan test for breast cancer.

Sydney Breast Clinic had built new clinical facilities and installed new digital imaging and information systems in the period directly before the acquisition by Fermiscan. The significant capital improvements have increased the capacity of the clinic. In addition processes and organisational changes have contributed to potential profit improvements.

### **Patents**

Fermiscan has an international family of patents covering our technologies and has lodged a number of applications for further patents to protect our ongoing inventions. The existing global patents provide an opportunity to develop tests for other pathological states.

## Fermiscan Test development path

The Fermiscan Test development path in Australia and overseas includes

- Increasing Fermiscan's global footprint and international expansion plans including completion of clinical research with leading hospitals in Japan, Italy and Singapore as well as the Ashford Cancer Centre, a leading cancer clinic in Adelaide
- Conducting a trial of the Fermiscan Test in patients attending the Sydney Breast Clinic in addition to the normal diagnostic and screening practices provided to those patients. Medical staff can compare the Fermiscan Test results to patient imaging results. This will assist Fermiscan and the medical community to position the test within current clinical practice. Patients are becoming educated regarding the test and its requirements and this assists Fermiscan in increasing awareness in this group. This clinical study is an important step in Fermiscan's programme of making the test widely available to Australian women and commercialisation in Australia
- Commencing clinical research in Japan shortly, with the assistance of one of Japan's leading specialist breast cancer hospitals as a process towards regulatory approval
- Completion of the collection of samples from an Italian study population of 100+ women with a breast abnormality as a result of either screening or diagnostic imaging. This initial trial is being managed by the Piedmont Health Unit in Turin
- Undertaking a similar multi-centre Italian study in order to progress commercial development with Italy as the first country to launch in Europe
- Acquiring CE Mark registration for the Fermiscan Test in Europe which is expected to be granted mid 2009
- Completing a 100+ patient clinical trial in Singapore with the support of the KK Breast Centre of the KK Women's and Children's Hospital, the largest women's and children's medical facility in Singapore. Successful trial completion will assist Fermiscan's entry into Singapore and south-east Asian markets and is part of the company's strategy for the international delivery of the Fermiscan technology

## Cash Position

The cash flow for the year to December 2008 includes the cash flows from Sydney Breast Clinic which was acquired by Fermiscan on 13 June 2008. Receipts from customers of Sydney Breast Clinic were \$2.7 million in the period since acquisition.

The group net operating cash outgoings for the year were \$8.3 million and included \$3.3 million for scientific facilities and synchrotron beam line rental at Chicago in the United States. The scientific operations support the current domestic and international clinical studies and contribute to the establishment of synchrotron scientific capability for the future.

The monthly net operating cash outgoings for the year to December 2008 were \$0.7 million per month. The overall net cash position in the year to 31 December 2008 decreased by \$13.4 million from \$20.9 million to \$7.5 million and included the purchase price for Sydney Breast Clinic of \$3.5 million in addition to \$2.2 million of Sydney Breast Clinic debt retirement.

In line with the company's objective to ensure prudent management of cash resources, future cash flows will reflect significant cost reductions in synchrotron operations following the move to the Australian Synchrotron (now that it is operational) and reduced clinical trial costs as a result of the successful completion of the Fermiscan 2,000 patient trial in 2008.

In addition non-essential expenditure has been strictly controlled and development aspects such as spending on patent development on Analytical Method & Apparatus (the Bevan Reid patents) has ceased.

Spending is focused on the commercialisation of the Fermiscan Breast Cancer Test.

**Fermiscan Holdings Limited**  
**Results for Announcement to the Market**  
**For the Year Ended 31 December 2008**

**Financial results**

	<b>2008</b> <b>(\$'000)</b>	<b>2007</b> <b>(\$'000)</b>	<b>Movement</b> <b>%</b>
<b>Total revenue</b>	<u>3,747</u>	<u>1,362</u>	175%
Net interest income	<u>1,027</u>	<u>1,362</u>	-25%
Depreciation and Lease Amortisation	440	109	304%
Earnings (loss) before interest, tax, depreciation and amortisation (EBITDA) and share based expense transactions	<u>(9,745)</u>	<u>(7,031)</u>	39%
Earnings (loss) before interest, tax and intangibles amortisation (EBITA) and share based payment transactions	<u>(10,184)</u>	<u>(7,140)</u>	43%
<b>Loss before Share based payment transactions</b>	<u><b>(9,157)</b></u>	<u><b>(7,152)</b></u>	28%
Share based expense transactions	87	232	-63%
Income tax attributable to operating profit (loss)	<u>-</u>	<u>-</u>	
<b>Net Loss attributable to shareholders of Fermiscan Holdings Limited</b>	<u><b>(9,244)</b></u>	<u><b>(7,384)</b></u>	25%

**Dividends and Dividend Reinvestment Plan**

There were no dividends paid in the last two years and no dividends were proposed. The company does not operate a Dividend Reinvestment Plan.

	As at 31 December 2008	As at 31 December 2007
<b>Net tangible asset backing - cents per share</b>	<u><b>6.3</b></u>	<u><b>15.6</b></u>

An explanation of key items included in the figures reported above is provided in the commentary pages of this announcement and in the notes to the accounts.

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**Fermiscan Holdings Limited and Controlled Entities**  
**Income Statement**  
**For the Year Ended 31 December 2008**

	Notes	Consolidated Entity	
		2008	2007
		(\$'000)	(\$'000)
Receipts from customers		2,720	-
Interest income		1,027	1,362
<b>Revenue</b>	<b>3</b>	<b><u>3,747</u></b>	<b><u>1,362</u></b>
Employee benefits expense		5,743	3,164
Formation costs		-	1
Administration costs		797	168
Scientific & synchrotron operations		4,094	3,368
Patent and trademark expenses		2	26
Legal fees		396	267
Branding and marketing		376	435
Occupancy costs		484	177
Depreciation and amortisation	4	440	109
Finance costs		-	12
Other expenses		1,101	787
Currency translation		(529)	-
Total expenses		<u>12,904</u>	<u>8,514</u>
<b>Profit (loss) before Share based expense transactions</b>		<b>(9,157)</b>	<b>(7,152)</b>
Share based expense transactions		<u>87</u>	<u>232</u>
<b>Profit (loss) before income tax expense (income tax benefit)</b>		<b>(9,244)</b>	<b>(7,384)</b>
Income tax expense (income tax benefit)	5	<u>-</u>	<u>-</u>
<b>Profit (loss) attributable to the members of the parent</b>		<b><u>(9,244)</u></b>	<b><u>(7,384)</u></b>
<b>Earnings per share</b>			
Basic earnings (loss) – cents per share		(6.4)	(5.3)
Diluted earnings (loss) – cents per share		(6.4)	(3.7)

**Fermiscan Holdings Limited and Controlled Entities**  
**Balance Sheet**  
**For the Year Ended 31 December 2008**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		7,515	20,972
Receivables	6	277	1,301
Amount owing by controlled entities		-	-
Other	7	219	115
<b>TOTAL CURRENT ASSETS</b>		<b>8,011</b>	<b>22,388</b>
<b>NON CURRENT ASSETS</b>			
Investment in subsidiaries	8	-	-
Property, plant and equipment	9	2,540	655
Intangible assets	10	5,365	583
<b>TOTAL NON CURRENT ASSETS</b>		<b>7,905</b>	<b>1,238</b>
<b>TOTAL ASSETS</b>		<b>15,916</b>	<b>23,626</b>
<b>CURRENT LIABILITIES</b>			
Payables	11	1,010	366
Provisions	12	486	173
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,496</b>	<b>539</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	11	76	166
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>76</b>	<b>166</b>
<b>TOTAL LIABILITIES</b>		<b>1,572</b>	<b>705</b>
<b>NET ASSETS</b>		<b>14,344</b>	<b>22,921</b>
<b>EQUITY</b>			
Contributed equity	13	34,959	34,928
Reserves		4,205	3,569
Retained earnings (accumulated losses)		(24,820)	(15,576)
<b>TOTAL EQUITY</b>		<b>14,344</b>	<b>22,921</b>

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**Fermiscan Holdings Limited and Controlled Entities**  
**Statement of Changes in Equity**  
**For the Year Ended 31 December 2008**

	Notes	Consolidated Entity	
		2008	2007
		(\$'000)	(\$'000)
Retained earnings (losses) at the beginning of the year		(15,576)	(8,192)
Profit (loss) for the year		<u>(9,244)</u>	<u>(7,384)</u>
<b>Retained earnings (losses) at the end of the year</b>		<b><u>(24,820)</u></b>	<b><u>(15,576)</u></b>
Transactions with equity holders in their capacity as equity holders:			
Contributed equity at the beginning of the year		34,928	12,780
Contributions received by Fermiscan Holdings Limited		45	23,066
Reversal of share based expense reserve on the exercised of options by employees		10	-
Fund raising costs		<u>(24)</u>	<u>(918)</u>
<b>Contributed equity at the end of the year</b>		<b><u>34,959</u></b>	<b><u>34,928</u></b>
Share based expense opening balance		3,569	3,420
Granted during the year		636	232
Exercised during the year		<u>-</u>	<u>(83)</u>
<b>Share based expense reserve at the end of the year</b>		<b><u>4,205</u></b>	<b><u>3,569</u></b>
<b>Total Equity at the end of the year attributable to members of the parent</b>		<b><u>14,344</u></b>	<b><u>22,921</u></b>

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**Fermiscan Holdings Limited and Controlled Entities**  
**Statement of Cash Flows**  
**For the Year Ended 31 December 2008**

	Notes	Consolidated Entity	
		2008	2007
		(\$'000')	(\$'000')
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(12,098)	(8,141)
Receipts from customers		2,720	-
Interest received		1,027	1,362
		<hr/>	<hr/>
<b>Net cash provided by (used in) operating activities</b>	14	<b>(8,351)</b>	<b>(6,779)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payments for property plant and equipment		(207)	(544)
Payments for intangible assets		(113)	(279)
Payment for acquisition	8	(3,521)	-
Loans to controlled entities		-	-
Loans to other entities		(100)	-
Loans repaid by other entities		1,000	500
		<hr/>	<hr/>
<b>Net cash provided by (used in) investing activities</b>		<b>(2,941)</b>	<b>(323)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from share issue after costs of issue		45	22,065
Loan repayments to other entities	8	(2,210)	-
		<hr/>	<hr/>
<b>Net cash provided by (used in) financing activities</b>		<b>(2,165)</b>	<b>22,065</b>
Net increase in cash and cash equivalents		(13,457)	14,963
Cash and cash equivalents at beginning of year		20,972	6,009
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>		<b>7,515</b>	<b>20,972</b>
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**Fermiscan Holdings Limited and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2008**

**NOTE 1: BASIS OF PREPARATION**

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

Fermiscan Holdings Limited, the legal parent, is a company limited by shares, incorporated and domiciled in Australia.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation of the financial report**

The financial report of Fermiscan Holdings Limited and controlled entities, and Fermiscan Holdings Limited as an individual parent entity comply with Australian Accounting Standards. The financial statements comply with International Financial Reporting Standards (IFRS).

**Summary of the significant accounting policies:**

**(b) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Fermiscan Holdings Limited controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 19.

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% in the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25<sup>th</sup> October 2006) and therefore control of the combined entity. Accordingly the transaction is accounted for as a reverse acquisition. This financial report discloses the consolidated financial statements with the Fermiscan Holdings Limited acquisition of Fermiscan Limited accounted for as a reverse acquisition.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

**(c) Revenue recognition**

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

Other government grants are recognised as income when received.

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

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

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

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Balance Sheet.

**(e) Property, plant and equipment**

*Cost and valuation*

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

The carrying amount of plant and equipment is reviewed for impairment annually by directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement.

*Depreciation*

The depreciable amounts of fixed assets are depreciated on a straight-line basis over their estimated useful lives 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 useful lives for each class of assets are:

	<b>2008</b>	<b>2007</b>
Plant and equipment:	<i>2.5 to 5 years</i>	<i>2.5 to 5 years</i>
Motor vehicles:	<i>5 years</i>	<i>5 years</i>

**(f) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Finance leases*

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

*Operating leases*

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

**(g) Intangibles**

*Trademark and patents*

Trademark and patents are recognised at cost and are amortised over their estimated useful lives, which range from 5 to 20 years, once commercial production is commenced. Trademarks and patents are carried at cost less accumulated amortisation and any impairment losses.

*Research and development*

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced. Other development expenditure is recognised as an expense when incurred.

**(h) Impairment of assets**

Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

**(i) Income tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

The parent entity and its controlled entities intend to form an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group also intends to enter into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(j) Employee benefits**

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

*Share based expense transactions*

The company operates an employee share option plan. In addition Directors and employees were granted options during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

*Superannuation*

Contributions are made by the Group to employee superannuation funds which provide accumulated benefits to employees.

## **(k) Financial instruments**

### *Classification*

The group classifies its financial instruments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

### *Held-to-maturity investments*

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

### *Loans and receivables*

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

### *Financial liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Investments in subsidiaries not included in the above categories are reflected at cost less impairment of value.

## **(l) Foreign currencies**

### *Functional and presentation currency*

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

### *Transactions and balances*

Fermiscan Holdings Limited and its subsidiaries presently transact in foreign currencies. Transactions in foreign currencies of entities within the consolidated entity are translated into the functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Resulting exchange differences arising on settlement or re-statement would be recognised as revenues and expenses for the financial year.

## **(m) Investments**

Investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as available for sale, are measured at fair value.

**(n) Rounding of amounts**

The company has applied the relief available under ASIC Class order 98/100, accordingly amounts in financial statements have been rounded off to the nearest \$1,000.

**(o) New Accounting standards and UIG interpretation**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 December 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is that there is not expected to be any material effect on the Group in future reporting periods.

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are based on past performance and management's expectation for the future.

***Critical accounting estimates and assumptions***

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

*Income tax*

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

*Valuation of expense based payments:*

Equity settled share based payments are adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

**NOTE 3: REVENUE**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
Revenues from operations		2,720	-
Interest Income		1,027	1,362
		<u>3,747</u>	<u>1,362</u>

**NOTE 4: PROFIT (LOSS) FROM OPERATIONS**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
Employee benefits expense		5,530	2,835
Superannuation		213	329
Depreciation of non-current assets			
Plant and equipment		408	82
Motor vehicles		32	27

**NOTE 5: INCOME TAX**

Profit (loss) before income tax	(9,244)	(7,384)
At the statutory income tax rate of 30% (2007: 30%)	(2,773)	(2,215)
Tax effect of amounts which are not deductible in calculating taxable income		
Share based payments	87	70
Tax losses and timing differences not recognised as future tax benefits	(2,686)	(2,145)
Income tax expense	-	-

Tax losses and timing differences are not recognised as future tax benefits

**NOTE 6: RECEIVABLES****CURRENT**

Trade and other receivables	177	301
Unsecured directors loan	100	-
Secured loan to unrelated entity	-	1,000
	277	1,301

**NOTE 7: OTHER CURRENT ASSETS**

Prepayments	121	82
Unexpired interest charges	15	33
Other assets	83	-
	219	115

**NOTE 8: INVESTMENT IN SUBSIDIARIES**

Sydney Breast Clinic Pty Ltd

The company acquired 100% of the share capital of Sydney Breast Clinic Pty Ltd on 13 June 2008. The transaction was funded from existing cash resources. Details of acquisition costs and net assets acquired are:

	(\$'000)	
Cash paid including stamp duty	3,521	
Options issued as consideration	560	
	<hr/>	
Total acquisition cost	4,081	
The options cost was determined by reference to the fair value of the options at the grant date		
Net assets acquired and goodwill on acquisition	Fair Value	Carrying Amount
	(\$'000)	(\$'000)
Assets		
Cash	122	122
Trade and other receivables	95	95
Prepayments	32	32
Plant and Equipment	2,118	2,118
Total assets acquired	2,367	2,367
Liabilities		
Trade and other payables	529	529
Borrowings	2,210	2,210
Provisions	215	215
Total liabilities acquired	2,954	2,954
Net assets (deficiency) of Sydney Breast Clinic Pty Ltd acquired at 13 June 2008	(587)	(587)
Goodwill on acquisition	4,668	

The goodwill is attributable to the value of the business acquired to Fermiscan and the expected synergies to arise from the acquisition.

Profit/(loss) of Sydney Breast Clinic Pty Limited is included in consolidated profit/(loss) of the group since the acquisition date of 13 June 2008;

Loss of Sydney Breast Clinic Pty Ltd since date of acquisition	<u>(508)</u>
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**NOTE 9: PROPERTY, PLANT AND EQUIPMENT**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
Plant & equipment			
At cost		3,152	467
Accumulated depreciation		(866)	(86)
		<u>2,286</u>	<u>381</u>
Motor vehicles			
At cost		344	320
Accumulated depreciation		(90)	(46)
		<u>254</u>	<u>274</u>
Total plant and equipment		<u>2,540</u>	<u>655</u>

**NOTE 10: INTANGIBLES**

Trademark and patents, at cost		697	583
Goodwill on acquisition of Sydney Breast Clinic Pty Ltd	8	4,668	-
		<u>5,365</u>	<u>583</u>
Opening net book amount		583	304
Additions		4,782	279
Closing net book amount		<u>5,365</u>	<u>583</u>

**NOTE 11: PAYABLES****CURRENT**

Trade payables		139	169
Other payables		782	153
Hire purchase liabilities	20	89	44
		<u>1,010</u>	<u>366</u>

**NON-CURRENT**

Hire purchase liabilities	20	<u>76</u>	<u>166</u>
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**NOTE 12: PROVISIONS**

	Notes	Consolidated Entity	
		2008	2007
		(\$'000)	(\$'000)
<b>CURRENT</b>			
Employee entitlements		486	173

**NOTE 13: CONTRIBUTED EQUITY***(a) Issued and paid up capital*

Ordinary shares fully paid	34,959	34,928
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Fully paid ordinary shares carry one vote per share and carry the right to dividends.

*(b) Movements in shares on issue*

	Legal Parent Entity	
	2008	
	Number of shares ('000)	(\$'000)
Beginning of the financial year	143,507	57,577
Issued during the year	-	-
Employee share option exercised	-	-
Deduct: Share issue costs	-	-
End of the financial year	143,507	57,577

*(c) Share Options*

## Employee share option plan

The company offered employee participation in the Employee share option plan as a long-term incentive and as part of the remuneration arrangements. In addition, 5,000,000 options were granted to an executive director through a shareholder general meeting in December 2008. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

During or since the end of the financial year, 9,300,000 (2007: 450,000 options) have been granted. The market value of ordinary Fermiscan Holdings Limited shares closed at \$0.20 on 31 December 2008.

*(d) Share Options- movements*

	2008	Weighted average exercise price	2007	Weighted average exercise price
	Number		Number	
Outstanding at beginning of year	59,842,000		61,000,000	30 cents
Granted during the year	9,300,000	40 cents	450,000	\$1.50
Exercised during the year	-	-	(1,608,000)	30 cents
Outstanding at year end	69,142,000		59,842,000	

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*(e) Issuances, repurchases, and repayments of debt and equity securities*

On the acquisition of Sydney Breast Clinic Pty Limited, Fermiscan Pty Limited repaid a loan to Sydney Breast Clinic of \$2.2 million. In addition, Fermiscan granted 2,000,000 options to the vendors which were issued at market price

The options vest over two years and expire in three years from the grant date.

Options granted during the year were:

- 300,000 options to acquire ordinary shares granted on 28 of August 2008 with an exercise price of 35 cents. The options vest over two years and expire in three years from the grant date.
- 2,000,000 options to acquire ordinary shares granted on 1 December 2008 with an exercise price of 32 cents. The options vest over two years and expire in three years from the grant date.
- 5,000,000 options to acquire ordinary shares granted on 10 December 2008 with an exercise price of 32 cents. The options vest over two years and expire in five years from the grant date.

Other than the above, there were no issues, repurchases and repayments of debt securities or equity securities in the half year.

**NOTE 14: CASH FLOW INFORMATION**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
Reconciliation of the net profit (loss) after tax to the net cash flows from operations:			
Net profit (loss)		(9,244)	(7,384)
<b>Non-cash Items</b>			
Depreciation and amortisation		440	109
Share based expense transaction		87	232
<b>Changes in assets and liabilities</b>			
(Increase)/decrease in receivables		1,151	131
(Increase)/decrease in other assets		(104)	108
Increase/(decrease) in trade and other creditors		(995)	(48)
Increase/(decrease) in employee entitlements		314	73
<b>Net cash flow from (used in) operating activities</b>		<b>(8,351)</b>	<b>(6,779)</b>

**NOTE 15: EARNINGS PER SHARE**

	<b>2008</b>	<b>2007</b>
	<b>Number of shares</b>	<b>Number of shares</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit (loss)	(9,244)	(7,384)
Earnings used in calculating basic and diluted earnings per share	<u>(9,244)</u>	<u>(7,384)</u>
Weighted average number of ordinary shares used in calculating basic earnings per share	143,507	139,386
Effect of dilutive securities:		
Share options	-	60,298
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>143,507</u>	<u>199,684</u>

**NOTE 16: COMMITMENTS AND CONTINGENCIES**

	<b>Consolidated Entity</b>	
	<b>2008</b>	<b>2007</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>Lease expenditure commitments</b>		
Operating leases (non-cancellable):		
(a) Operating leases related to office premises with lease terms of three years, with an option to extend for a further three years and equipment rentals for 5 years		
(b) Minimum lease payments		
– Not later than one year	612	195
– Later than one year and not later than five years	1,296	97
– Later than five years	-	-
– Aggregate lease expenditure contracted for at reporting date	<u>1,908</u>	<u>292</u>

**NOTE 17: AUDITOR'S REMUNERATION**

	Notes	Consolidated Entity	
		2008 (\$'000)	2007 (\$'000)
Amounts received or due and receivable for:			
An audit or review of the financial report of the entity and any other entity in the consolidated entity			
Pitcher Partners		77	64
Other Services			
Pitcher Partners			
Tax compliance, tax consulting and earlier years tax returns		127	115

**NOTE 18: RELATED PARTY DISCLOSURES**

(a) The consolidated financial statements include the financial statements of Fermiscan Holdings Limited and its controlled entities listed below:

	Country of Incorporation	Percentage Owned	
		2008	2007
Parent Entity:			
Fermiscan Holdings Limited	Australia		
Subsidiaries of Fermiscan Holdings Limited			
Fermiscan Limited	Australia	100%	100%
Fermiscan Australia Pty Ltd	Australia	100%	100%
Fermiscan BCT Pty Ltd	Australia	100%	100%
Fermiscan USA Inc	USA	100%	100%
Fermiscan Italy Pty Limited	Australia	100%	-
Fermiscan UK Pty Limited	Australia	100%	-
Fermiscan Clinics Pty Limited	Australia	100%	-
Sydney Breast Clinic Pty Limited	Australia	100%	-

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- (b) The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

*Wholly-owned group transactions*

Fermiscan Pty Limited acts as the principal operating company for the group, incurring most of the day to day expenses. Fermiscan Australia Limited is the principle patent holder.

Fermiscan USA incurred costs which have been cross charged to Fermiscan Pty Limited at cost plus a small mark-up.

*Transactions with associates*

Fermiscan Holdings Limited General Counsel, Richard Toltz, is a consultant to Piper Alderman, the Company's solicitors, who are paid for legal services provided to the Company at their normal commercial rates.

**NOTE 19: SEGMENT INFORMATION**

The consolidated entity operated in two business segments being the commercialisation of a non-invasive diagnostic test for the detection of breast cancer (Fermiscan) and as a provider of diagnostic services for women with symptoms of breast disease (Sydney Breast Clinic). The consolidated entity operated predominately in Australia.

	<b>2008</b> <b>(\$'000)</b>	<b>2007</b> <b>(\$'000)</b>
<b>Segment revenue</b>		
Fermiscan interest income	1,027	561
Sydney Breast Clinic	<u>2,720</u>	<u>-</u>
<b>Total revenue</b>	<u><b>3,747</b></u>	<u><b>561</b></u>
<b>Segment results</b>		
Fermiscan	(8,736)	(7,384)
Sydney Breast Clinic	<u>(508)</u>	<u>-</u>
<b>Loss before income tax</b>	<u><b>(9,244)</b></u>	<u><b>(7,384)</b></u>

**NOTE 20: FINANCIAL INSTRUMENTS**

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The group's overall risk management program addresses the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group has not used derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, foreign exchange and other price risks.

Risk management is carried out by the Managing Director and the Chief Financial Officer under policies approved by the Audit & Risk committee and the board. The Board provides directions for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity

(a) *Market risk*

*Foreign exchange risk.*

The group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

*Cash flow and fair value interest rate risk*

The Group's main interest rate risk arises from funds on deposit. Surplus cash has been invested in term deposits and cash management accounts.

(b) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, to meet the ongoing expenditure requirements whilst the group is in start up phase. Management and the board monitor rolling forecasts of the Group's liquidity on the basis of expected cash flow.

(c) *Fair value estimation*

The fair value of financial assets and financial liabilities is estimated for recognition and measurement and for disclosure purposes. The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(d) *Credit risk exposures*

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 of those assets, net of any provisions for doubtful debts of those assets, as disclosed in Balance Sheet and Notes to the Financial Statements.

The group has no derivative financial instruments or forward exchange contracts.

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

(e) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per Balance Sheet		Weighted average Effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years							
	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 (\$'000')	2007 (\$'000')	2008 %	2007 %
<i>(i) Financial assets</i>														
Cash	7,515	20,972	-	-	-	-	-	-	-	-	7,515	20,972	4.25%	7.00%
Trade and other receivables	-	-	-	-	-	-	-	-	177	301	177	301	na	na
Secured loans	-	-	-	1,000	-	-	-	-	-	-	-	1,000	-	10%
Unsecured loans	-	-	100	-	-	-	-	-	-	-	100	-	9.82%	-
<i>(ii) Financial liabilities</i>														
Trade creditors	-	-	-	-	-	-	-	-	139	169	139	169	-	-
Other creditors	-	-	-	-	-	-	-	-	782	154	782	154	-	-
Finance lease liability	-	-	89	44	76	166	-	-	-	-	165	210	7.80%	7.80%

**NOTE 21: SUBSEQUENT EVENTS**

There has been no matter or circumstance, which has arisen since 31 December 2008 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 31 December 2008, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 December 2008, of the consolidated entity.

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**COMPLIANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

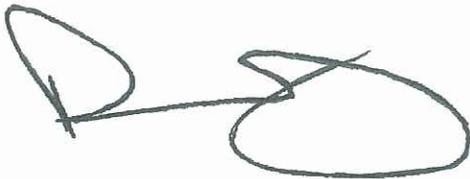
This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

This report and the accounts upon which the report is based use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has formally constituted audit committee.



David Young  
Managing Director

27 February 2009

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