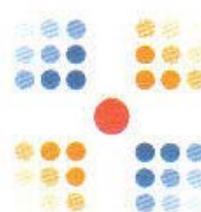


**resonance** health limited



# **RESONANCE HEALTH LIMITED**

(ABN 96 006 762 492)

## **ANNUAL REPORT**

**30 JUNE 2004**

## Corporate Directory

### Directors

The Hon. Dr. Michael Wooldridge - Non executive  
Chairman  
Mr. Tony Fitzgerald –Managing Director  
Dr. Andrew Walker – Non executive Director  
Dr Christine Bennett – Non executive Director

### Advisory Committee

Dr Christine Bennett  
Dr Kris Kowdley

### Joint Company Secretaries

Mr. Evan Cross  
Mr. Stuart Usher

### Registered Office

Suite 1,  
117 Stirling Highway  
NEDLANDS WA 6009

### Principal Place of Business

Suite 1,  
117 Stirling Highway  
NEDLANDS WA 6009  
Telephone: 61 8 9389 5933  
Facsimile: 61 8 9389 5944

### Postal Address

PO Box 1150  
NEDLANDS WA 6909

### Website and e-mail address

[www.resonancehealth.com.au](http://www.resonancehealth.com.au)  
Email: [admin@resonancehealth.com.au](mailto:admin@resonancehealth.com.au)

### Auditors

HLB Mann Judd  
15 Rheola Street  
WEST PERTH WA 6005

### Share Registry

Advanced Share Registry Services  
Level 7, 200 Adelaide Terrace  
PERTH WA 6000  
Telephone: 61 8 9221 7288

### Bankers

National Australia Bank Limited

### Stock Exchange Listing

Resonance Health Limited shares are listed on  
the Australian Stock Exchange.  
ASX Code: RHT

### Solicitors

Steinepreis Paganin  
Lawyers and Consultants Level 14, Citibank  
House  
37 St Georges Terrace  
Perth WA 6000

<b>Contents</b>	<b>Page</b>
Chairman's Report	4
Directors' Report	5
Corporate Governance Statement	17
Statement of Financial Performance	21
Statement of Financial Position	22
Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	46
Independent Audit Report	47
Shareholder Information	48

## Chairman's report

Dear shareholder

It is my pleasure to present the 2003-2004 annual report for Resonance Health at this crucial stage in the company's development. Through its majority controlled subsidiary, Inner Vision Biometrics Pty Ltd (IVB), Resonance Health is commercialising the FerriScan technology for the non-invasive measurement of liver iron levels.

The FerriScan test assists in the diagnosis and monitoring of iron overload diseases without the need for invasive procedures such as liver biopsy. Iron overload diseases are amongst the most common genetic disorders and if left untreated can be a major cause of severe illness and premature death.

Given that this is the first annual report since the recapitalisation and renaming of GEO2 Ltd, and acquisition of a controlling interest in the FerriScan technology, it is timely to reflect briefly on the development path of the technology, and the achievements to date.

We have successfully completed the clinical validation of the FerriScan test for measurement of liver iron and commenced further U.S. studies aimed at expanding its application into the area of liver fibrosis. We have cemented the research cooperation with Novartis Pharma via two further agreements in 2004 for the provision of FerriScan testing services. Major partnerships have been identified with radiology groups for the roll out of FerriScan in the United Kingdom and Australia, and we have completed and lodged a submission to the Therapeutic Goods Administration in Australia for regulatory approval of the technology. Preparations are also well in hand for an application to the United States Food and Drug Administration for U.S. approval to market FerriScan.

As a result of these developments, the Resonance Health Group is poised to commence the commercial roll out of FerriScan firstly in Australia and later in the United Kingdom during 2005.

Resonance welcomes the opportunity to contribute to improved diagnosis and treatment for iron overload patients throughout the world.

The Hon. Dr. Michael Wooldridge  
Chairman

30<sup>th</sup> September 2004

## DIRECTORS' REPORT

THE Board of Directors of Resonance Health Limited has pleasure in presenting its report in respect of the financial year ended 30 June 2004.

### Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:

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The Hon Dr Michael Wooldridge  
BSc, M.B.B.S, MBA

*Position:* Chairman — Independent and Non-Executive (appointed 11 November 2003)

*Experience:* Dr Wooldridge holds degrees in science, medicine and an MBA from Monash University. After working as a medical practitioner, he was elected to the Federal Parliament in 1987. He was appointed Deputy Leader of the Opposition in 1993, and became the Australian Minister for Health and Family Services in 1996. His portfolio was extended to include Aged Care in 1998. During this period he also served as the Chair for the World Health Organisation's East Asia and Western Pacific Region and Global Chairman of UN AIDS, the peak UN body dealing in HIV/AIDS.

From 1996 to 2001 he was a member of the Cabinet Budget Committee (Expenditure Review) and thus played an integral part in Federal budget allocations not only in the health sector but across all sectors of the Australian government. Since retiring from Federal Parliament, Dr Wooldridge has held and continues to hold an academic appointment at the University of Melbourne and is Chairman of Neurosciences Australia and the Co-operative Research Centre in Oral Health Research.

For nearly 6 years Dr Wooldridge was the principal regulator and policy director of the Australian healthcare system. His breadth of knowledge and understanding of government policy in the health sector, particularly in relation to diagnostic procedures, is extensive.

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Mr Tony Fitzgerald  
B.A., B.Juris, LL.B., M.P.A.

*Position:* Managing Director —Executive (appointed 25 August 2003)

*Experience:* Mr Fitzgerald is a graduate in Arts, Jurisprudence and Law and holds a Masters Degree in Public Finance. He practiced as a litigation lawyer before joining Western Capital Ltd (now Provalis Plc) as a founding executive and later Executive Director.

Mr Fitzgerald has worked in a senior executive role for the past eighteen years in a variety of ASX listed and unlisted healthcare companies in areas including biotechnology, medical devices and pharmaceutical diagnostics and distribution.

Mr Fitzgerald is also the Executive Chairman of Regenera Limited, a recent ASX listed company. He has a strong interest in the commercialisation of healthcare related technologies, intellectual property issues and technology licensing, all of which will be of significant assistance to the Company in advancing the commercialisation of the FerriScan technology.

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## DIRECTORS' REPORT (Continued)

Dr Christine Bennett  
MBBS, FRACP, Master Paeds

*Position:* Director — Independent and Non-Executive (appointed 11 November 2003)

*Experience:* Dr Bennett, a graduate in medicine from the University of Sydney and a specialist paediatrician, has more than 20 years experience in the health care industry as a specialist clinician, strategist and planner and senior executive manager in both the public and private sectors. Dr Bennett has held senior positions in the NSW Department of Health and was Chief Executive of Westmead Hospital and Community Health Services, Australia's largest teaching hospital campus.

In 2000 Dr Bennett was invited to be a partner at KPMG in Health and Life Sciences and assisted a range of health care, biotech and pharmaceutical companies with business strategy, IT solutions, commercial due diligence, industry intelligence and capital raising processes.

As Chief Executive Officer of Research Australia, a position she accepted in September 2002, Dr Bennett is committed to promoting the importance of health and medical research in Australia.

Dr Bennett currently holds board positions as deputy chair of Neurosciences Institute of Schizophrenia and Allied Disorders (NISAD), and is on the board of Pacific Nursing Solutions Pty Ltd.

Dr Bennett's broad industry experience and extensive medical networks coupled with her management and commercial skills will greatly assist Inner Vision Biometrics Pty Ltd in business development and liaison with medical practitioners, patient groups and government.

Dr Andrew Walker  
B.Med, B.Med.Sci (Hons), FICS

*Position:* Director — Independent and Non-Executive (appointed 11 November 2003)

*Experience:* Dr Walker is currently the Chairman and CEO of Aspen Medical. Over the last 12 years he has led a team that has developed and commercialised a range of successful medical and health related businesses including the Australian Skin Cancer Clinics and Combined Pathology. Today, Aspen Medical is a substantial international business based in Sydney, Australia.

Prior to the establishment of Aspen Medical, Dr Walker served in the Australian Defence Forces leading both airborne infantry and medical units. In 1998 he was awarded the Chief of Staff Commendation for service whilst in Borneo.

Dr Walker is a graduate of the University of Newcastle and has won places at both Oxford and Harvard Universities. Dr Walker is also a Fellow of the International College of Surgeons.

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### *Past directors who held office during the year:*

Mr David Steinepreis	Director (resigned as director 11 November 2003)
Mr Hugh Warner	Director (resigned as director 11 November 2003)
Mr Gary Steinepreis	Director (resigned as director 11 November 2003)
Mr Glenn Whiddon	Director (resigned as director 25 August 2003)

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

## DIRECTORS' REPORT (Continued)

### Joint Company Secretaries

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Mr Evan Cross  
B.Bus, C.A

*Position:* Joint Company Secretary/ Chief Financial Officer (appointed 11 November 2003)

*Experience:* Mr Cross is an Associate of the Institute of Chartered Accountants in Australia. He has held a number of senior positions in commerce and industry with particular focus on corporate finance. Mr Cross has extensive international experience finance experience having worked in the investment banking industry in Australia and the U.S. and has been involved in a range of activities including leveraged buyout transactions, capital raisings and senior and mezzanine debt financings.

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Mr Stuart Usher  
B.Bus, Grad.Dip. CSP, CPA,  
A.C.I.S.

*Position:* Joint Company Secretary/ Chief Financial Officer (appointed 15 April 2004)

*Experience:* Mr Usher is a CPA, an Associate member of The Chartered Institute Of Secretaries and Administrators and a member of Chartered Secretaries Australia where he has attained the status of Chartered Company Secretary. He has extensive experience in the management and corporate affairs of public listed companies.

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### ADVISORY COMMITTEE

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Dr Christine Bennett  
MBBS, FRACP, Master Paeds

Refer above.

Dr Chris Kowdley  
A.B.,M.D., FACP

*Experience:* Dr Kowdley joins the advisory committee being a pre-eminent liver specialist with a wealth of experience. Dr Kowdley received his initial degree in Biology and Anthropology on the Deans List from Columbia University and his MD from Mount Sinai school of medicine. He is currently Professor of Medicine in the division of Gastroenterology/Hepatology at the University of Washington, Attending Physician and Director of the Iron Overload Clinic at the University of Washington Medical Centre. Dr Kowdley is an author of over 150 articles, book chapters and reviews on various topics in liver disease. He serves on the editorial boards of the 'Journal of Clinical Gastroenterology and 'GI Endoscopy' and is involved in several national committees. Dr Kowdley's research and clinical interests include hepatic iron overload disorders, treatment of chronic viral hepatitis B and C, cholestatic liver diseases, non-alcoholic fatty liver disease and portal hypertension.

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## **DIRECTORS' REPORT (Continued)**

### **Review of Operations**

#### **Managing Director's Report**

The Resonance Health Group comprises Resonance Health Limited and its subsidiary Inner Vision Biometrics Pty Ltd. The Group aims to be a global leader in the development and commercialisations of quantitative magnetic resonance imaging techniques for the diagnosis and clinical management of disease.

We are seeking to achieve this by:

- Establishing FerriScan, a novel non invasive test for iron overload, as the 'gold standard' for liver iron measurement across the world.
- Expanding the potential applications of the FerriScan technology into areas where it addresses unmet clinical needs (e.g. liver fibrosis, fatty liver disease).

#### **The origins of FerriScan**

Resonance Health (formerly GEO2 Limited) acquired a controlling interest in the FerriScan technology in November 2003. Resonance has a 51% interest in Inner Vision Biometrics Pty Ltd ("IVB"), the developer of FerriScan.

FerriScan is a recently developed non invasive test for iron overload in the body which utilises magnetic resonance imaging.

MRI was developed during the 1980's and has evolved to be a safe and effective diagnostic imaging tool for many indications. Radiologists identified the potential to detect high iron levels in the liver using MRI in the late 1980's with attempts to measure iron concentration following soon after.

Early results were sufficiently encouraging to stimulate a significant effort around the world to develop a clinically viable MRI based solution for measurement of liver iron concentration. This early work prompted Associate Professor Tim St. Pierre and his team, which included Mr Paul Clark and Wanida Chua-anusom from the Department of Physics at the University of Western Australia, to begin a major research initiative into this area in 1996.

Associate Professor St. Pierre and his team filed the first patent applications relating to the core mathematical algorithms underlying the FerriScan technology in 2000. Since that time, patents in relation to the FerriScan technology have been issued in the United States and Australia, and the technology has undergone extensive clinical testing. The technology has been trialled in a number of centres in Australia, Europe, the U.S.A. and Asia with ongoing research cooperation underway for eighteen months with the international pharmaceutical group Novartis Pharma. In 2004, an application was made for approval to commercially market the FerriScan test with Australia's Therapeutic Goods Administration.

The FerriScan test is non-invasive, can be undertaken on a variety of MRI machines, and operates off-line from the magnetic resonance imager. The proprietary technology used in the delivery of the FerriScan test primarily involves a software platform that embodies a patented measurement analysis methodology and a calibration curve that correlates this measurement to Liver Iron Concentration.

### *The Need for FerriScan*

Iron overload disorders, such as thalassaemia and hereditary haemochromatosis (HHC), are common genetic conditions with life-threatening consequences. Accumulation of iron in the liver is toxic and leads to decreased health and life-expectancy if not treated appropriately. Yet these disorders are readily treated to achieve much improved health outcomes and significantly reduced morbidity.

The quantification and monitoring of tissue iron concentration therefore plays an important role in the diagnosis and clinical management of patients with iron overload diseases. Accurate measurement of liver iron levels is also essential for managing iron-chelation therapy to prevent iron toxicity while avoiding the adverse effects of excess iron chelator administration.

Prior to the development of FerriScan, the level of iron overload in the liver was either not measured at all, approximated using surrogate markers from blood parameters, or estimated via analysis of needle liver biopsy specimens.

Whilst the use of surrogate markers (such as blood levels of the iron transport protein ferritin, or the degree of iron saturation of transferrin) will remain useful tools as a first screen for presence of iron overload, they are widely acknowledged by the medical community as being unsatisfactory as a measure of liver iron concentration due to other factors potentially affecting the levels of these markers.

Aside from the safety implications of the liver biopsy procedure for patients who require repeated measurements of liver iron levels, the use of this invasive technique has additional limitations in terms of sampling error due to the non-uniform nature of iron deposition in liver tissue.

The availability of an accurate non-invasive technique for measuring liver iron concentration is therefore of utmost importance to patients and their physicians. FerriScan satisfies this unmet need.

### **Significant Achievements to Date**

Since the involvement of Resonance Health in the project, there have been a number of significant advances made by the project team towards the commercialisation of FerriScan:

- Key patents granted in the United States and Australia.
- Publication of FerriScan technical and clinical data in high impact peer reviewed international journals.
- Recruitment of executive team to complement scientists.
- Established relationships with multinational industry organisations, including Novartis Pharma and the international radiology group, MedTel.
- Completion and lodgement of FerriScan registration submission with Australian Therapeutic Goods Administration.

### Business Model

The Resonance Group's business model is akin to an electronic pathology business. The rapid evolution of telemedicine and data transmission globally has greatly facilitated the international expansion of a service such as FerriScan.

Raw data is securely received via the internet from multiple MRI centres and analysis undertaken in FerriScan's centralised laboratory. Results are returned to the referring physician electronically.

The primary analysis centre for FerriScan is in Perth, Western Australia. This facility will support the initial Australian and European roll-out, Asia Pacific countries and core R&D programs around the world.

As the business expands, and regulatory approvals are obtained in other markets, FerriScan analysis centres are likely to be established in strategic locations in Europe and the USA.

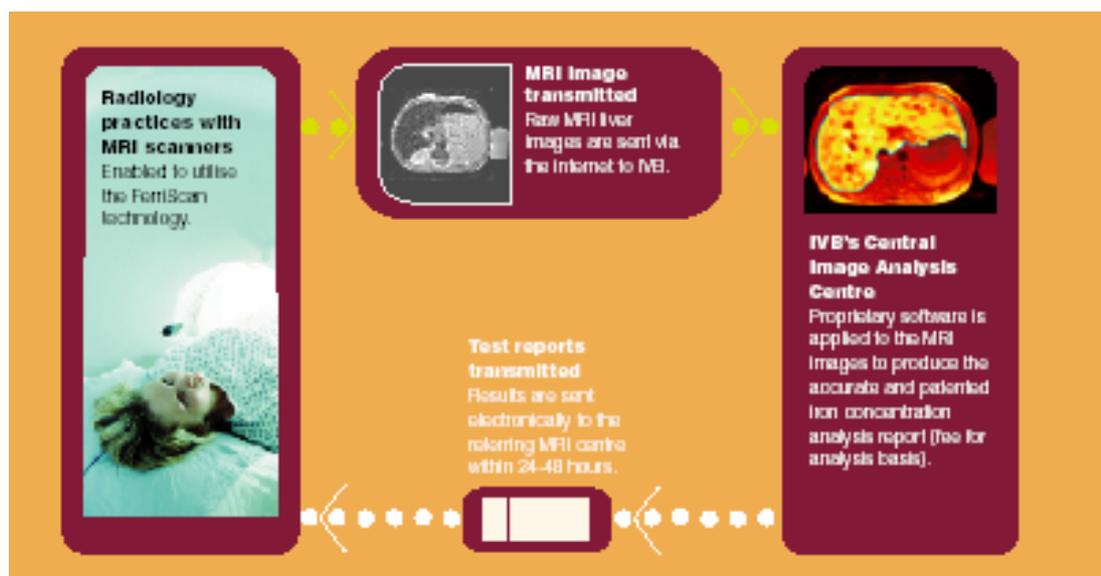


Illustration 1: FerriScan Service

*Competitive Advantages of FerriScan*

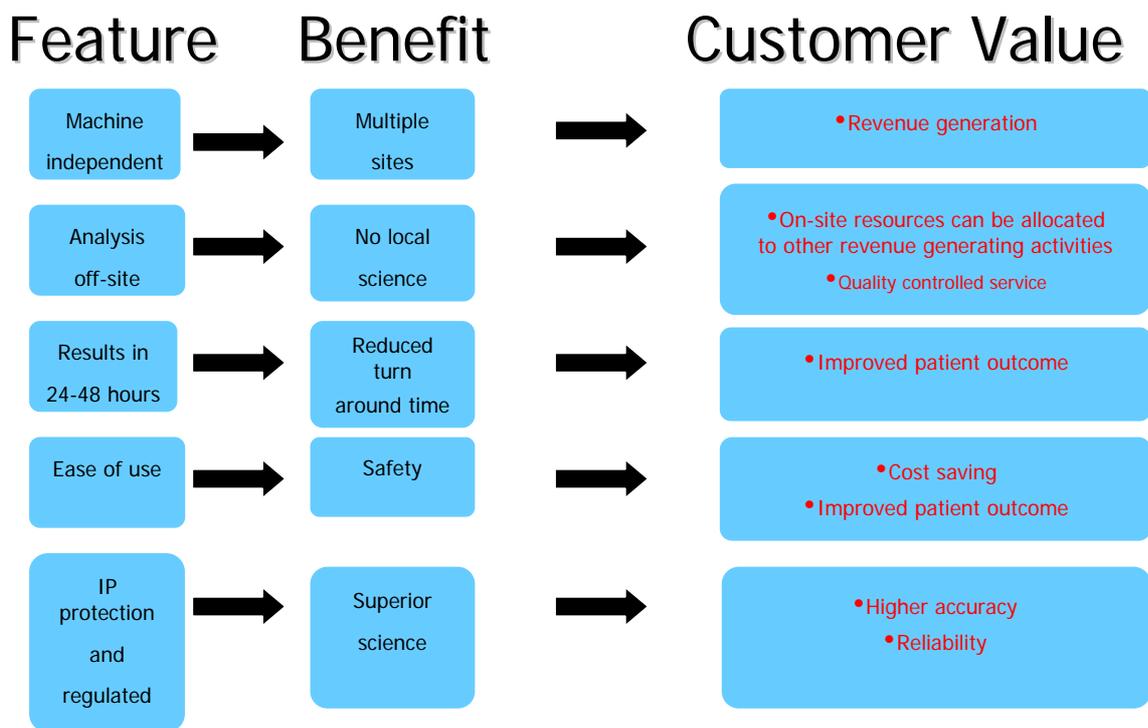
There are a variety of techniques which have been used in the past in an effort to accurately quantify liver iron levels. FerriScan is believed to have significant advantages over these alternative approaches in the areas such as accuracy, safety, affordability and accessibility (see below).

	FerriScan	Blood test	Liver Biopsy	Squid	Signal Intensity Ratio	T2* Relaxometry	CT Scan densitometry
<b>Non-Invasive</b>	√	X	X	√	√	√	√
<b>Widespread Availability</b>	√			X	X	X	√
<b>Clinically proven high quality of patient outcome</b>	√	√	√	X	X	X	X
<b>Multiple applications</b>	√	√	X	X	X	X	X
<b>Affordable</b>	√	√	X	X	X	X	X
<b>Regulated</b>	√	√	√ Gold current standard	X	X	X	X

Widespread availability of the FerriScan test will significantly improve the clinical management of people afflicted with iron metabolism disorders. FerriScan has a number of advantages over existing methods of liver iron monitoring, including:

- Non-invasive and painless;
- Low risk, can be repeated as required and used on children;
- Results are significantly more accurate than any other test currently available, including the current 'gold standard' of a liver needle biopsy;
- Existing MRI machines are used for data collection and new equipment purchase is not required;
- Data analysis is conducted in a centralized facility that is remote from the MRI machine thereby further protecting the integrity of the intellectual property;
- The technology has been extensively tested and validated in different MRI centres in Australian, Europe, the US and Asia, and;
- The test is significantly cheaper to administer than liver biopsy (when fully costed).
- The core intellectual property and business model has immediate applications in other clinical areas with large potential markets.

## Competitive Advantage of FerriScan in Iron Overload Segment



### Market Dynamics

The overall incidence of haemoglobinopathies worldwide is approximately 4.5% or equivalent to approximately 250 million people worldwide, representing a major unmet medical need. In markets such as Australia, the U.K, Europe and North America the incidence rate for hereditary haemochromatosis is approximately 1%. This represents an estimated market size in excess of USD2billion. There appears to be a growing awareness, at least in the Australian market, of iron overload diseases. Between 1998-99 and 2002-03 the number of blood iron studies increased by 92% and gene tests specific to haemochromatosis by 31%.

Furthermore, across the globe there is an ongoing controlled expansion of MRI sites which will increase accessibility of FerriScan to patients. In Australia alone, 23 new MRI licences are scheduled to be issued in the 2005 financial year.

The trend towards private billing is increasing across the healthcare industry opening up significant opportunities in the dynamic world of consumer healthcare where aging populations are increasingly affluent and knowledgeable about their health, and the benefits of self-medication. This trend, coupled with the move away from invasive diagnostic procedures, augurs well for FerriScan's positioning as a safe, highly accurate and non-invasive method of measuring liver iron loading.

### **The Year Ahead – Commercial Launch of the FerriScan Service**

2005 is expected to be a significant year for the Resonance Group and the FerriScan project.

Our first objective is to complete the regulatory approval formalities in Australia and to commence an initial launch of the FerriScan service in a small group of Australian MRI centres in combination with a major industry partner. In the first quarter of 2005, this will be followed by a national launch of the service across all States and involving both privately owned MRI centres and MRI facilities located in major public hospitals. Closely following the Australian launch, the group plans to launch the FerriScan service in the United Kingdom taking advantage of the reciprocal regulatory approval mechanisms in place between Australia and the European Economic Community. The United Kingdom is a significant potential market for FerriScan with areas of Scotland having the highest incidence of haemochromatosis in the world.

In late 2004, it is intended to lodge an application for approval to market FerriScan in the United States with the U.S. Food and Drug Administration. Much of the preparatory work for this submission has already been completed based on the Australian TGA submission. The U.S. is by far the largest individual territorial market for FerriScan, and the identification of a strong industry partner in the U.S. will be a major objective during the 2005 calendar year.

In addition to the applications of FerriScan in the iron overload area, preliminary work has been undertaken to explore potential expanded indications for the test in the area of liver fibrosis. The group intends to continue these initiatives in 2005 with a view to expanding the overall market for the FerriScan service in related areas.

The FerriScan project has benefited from the existing commercial collaborations with both research institutions and with the multi-national pharmaceutical group Novartis Pharma. The Resonance Group intends to continue its engagement within industry and where possible to expand its commercial relationships in the healthcare sector, both in Australia and internationally.

I would like to thank the respective Board Members and Management teams at Resonance Health and Inner Vision Biometrics for the contributions they have made towards making the FerriScan test available for the first time to iron overload patients.

## **DIRECTORS' REPORT (Continued)**

### **Operating Results**

The net loss of the consolidated entity for the financial year after tax and outside equity interests was \$1,263,193 (2003: Profit \$6,102,558 after profit from extraordinary items of \$6,487,283).

### **Dividends Paid or Recommended**

No dividend was paid or declared for the financial year.

### **Principal Activities**

The company's business involves the commercialisation of the FerriScan technology. FerriScan is a novel, non-invasive liver diagnosis technology, designed to replace liver biopsy for the measurement of iron overload in the liver, and with potentially broader applications in other areas of liver disease.

### **Significant Changes in State of Affairs**

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

- i. On 6 October 2003 the company issued a prospectus that accomplished a number of objectives:
  1. To satisfy the acquisition of 100% of IVB Holdings Pty Ltd via the issue of ordinary shares and options and performance shares and options to the target company shareholders.
  2. To raise additional working capital for the company of \$1.3 million via the issue of 13 million ordinary shares at \$0.10 each (with a one for two attaching option at \$0.001 each).
  3. To reward pre-existing shareholders of the company via a rights issue of options on the basis of two options for each three shares held, at an issue price of \$0.001 each.
- ii. Following agreement by the shareholders of the company at a general meeting on 14 October 2003, the name of the company was changed from GEO2 Limited to Resonance Health Limited to reflect the change of focus and major activity of the company and shareholders agreed to consolidate the existing number of ordinary shares on issue on a 10 for 1 basis to reflect the transformation of the company.
- iii. The company's reconstruction was completed on 12 November 2003 with settlement of the takeover of IVB Holdings Pty Ltd and the appointment of a new board of directors and management team.

Changes in controlled entities and divisions:

- i. In August 2003, the company acquired 100% of IVB Holdings Pty Ltd, which in turn has a 51% controlling interest in Inner Vision Biometrics Pty Ltd (IVB). IVB owns and is commercialising the FerriScan technology – a novel, non-invasive technology for the diagnosis and monitoring of iron overload diseases.

### **After Balance Date Events**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company and the consolidated entity, the results of those operations, or the state of affairs in future financial years.

### **Environmental Regulations**

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

## DIRECTORS' REPORT (cont'd)

### Likely developments and expected results of operations

Comments on expected results of the operations of the consolidated entity are included in this report under the review of operations.

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

### Meetings of Directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2004, and the numbers of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Meetings	
	Number eligible To attend	Number attended	Number eligible To attend	Number attended	Number eligible To attend	Number attended
Dr M Wooldridge	4	4	-	-	1	1
Mr T Fitzgerald	6	6	-	-	-	-
Dr C Bennett	4	4	1	1	-	-
Dr A Walker	4	4	1	1	1	1
<i>Past directors who held office during the year:</i>						
Mr D Steinepreis	3	3	-	-	-	-
Mr G Steinepreis	3	3	-	-	-	-
Mr H Warner	3	3	-	-	-	-
Mr G Whiddon	1	1	-	-	-	-

### Remuneration of Directors and Executives

Disclosures relating to directors' and executives' remuneration have been included in Note 5 to the financial statements.

### Directors' Shareholdings and Executives Shareholdings

Disclosures relating to directors' and executives' shareholdings have been included in Note 5 to the financial statements.

## DIRECTORS' REPORT (cont'd)

### **Indemnifying Directors and Officers**

During the year the company paid an insurance premium of \$20,790 (2003: Nil) to insure the directors and secretaries of the company and its controlled entities.

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

### **Options**

Details of Options that were granted over unissued shares during the financial year by the company and which remain outstanding at balance date are disclosed at Note 16(b) to the financial statements.

### **Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Resonance Health Limited support and adhere to the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

### **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.

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

Mr T Fitzgerald  
Managing Director

Dated this 30th day of September 2004

Perth WA

## **CORPORATE GOVERNANCE STATEMENT**

Resonance Health Limited 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 financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations. Where a recommendation has not been followed, this is clearly stated along with an explanation for the departure.

During the year, Resonance Health Limited did not have a corporate governance section on its website but is currently redesigning its website to allow for a new corporate governance section to be in place in October which will display all Corporate Governance Board Charters and policies that adhere to all ASX Corporate Governance Council Principles.

### **Principle 1**

#### **Lay solid foundations for management and oversight**

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 Resonance Health Limited.

The Board must ensure that Resonance Health 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:

- Charting 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
- 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

Separate functions of the Board and management existed and were practised throughout the year with the Board Charter being formally adopted by the Board in June 2004, which incorporates a Statement of Board and Management Functions.

### **Principle 2**

#### **Structure the Board to add value**

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. Details of each Director's skills and experience are set out in the Directors' report.

The ASX guidelines recommend that a listed company should have a majority of directors who are independent. The Board complies with the ASX Corporate Governance Council Principles 2.1 having three out of the four directors including the Chairman who are independent.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is evidence to the contrary) if it is equal or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point at the actual ability in question to shape the direction of the company's loyalty.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

The roles of Chairman and Managing Director 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.

With the prior approval of the Chairman, 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 fulfil their duties and responsibilities as directors.

Directors are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the company's constitution. There are no maximum terms for non-executive director appointments. Newly elected directors must seek re-election at the first general meeting of shareholders following their appointment.

The remuneration of the directors is determined by the remuneration committee. Further information and the components of remuneration for directors are set out in the Directors' Report.

The members of the remuneration and nomination committee are as follows:

-Dr M Wooldridge(Chairman)

-Dr A Walker

### **Principle 3**

#### **Promote ethical and responsible decision-making**

The Board places great emphasis on ethics and integrity in all its business dealings.

In regards to principle 3.1 in establishing a code of conduct, although there was no written policy for most of the year the board considers the business practices and ethics exercised by individual Board members and key executives were of the highest standards. A written policy was adopted by the Board in June 2004.

In regards to principle 3.2 in disclosing policies on trading in company securities, although there was no formal policy for most the year, a policy did exist and was practised whereby statutory provisions of the Corporations Act dealing with insider trading were strictly complied with. A written policy was adopted by the Board in June 2004.

### **Principle 4**

#### **Safeguard integrity in financial reporting**

The board has established an audit committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and framework of internal controls and ethical standards for the management of the consolidated entity to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are independent non-executive directors.

The members of the audit committee during the year were:

- Dr C Bennett (Chairman)

- Dr A Walker

The audit committee generally invites the Joint Chief Financial Officer and Company Secretary and external auditors to attend meetings.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

### **Principle 5**

#### **Make timely and balanced disclosure**

Although there were no written policies for most of the year, the Company complied with all disclosure requirements to ensure that Resonance Health manages the disclosure of price sensitive information effectively and in accordance with the requirements as set out by regulatory bodies. All market disclosures are approved by the Board.

The Managing Director and Company Secretary are authorised to communicate with shareholders and the market in relation to Board approved disclosures.

All announcements made to the ASX are placed on the Company's web site immediately after public release. A formal policy was adopted by the Board in June 2004.

### **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 the 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. Whilst principle 6.1 requires a written communications strategy that promotes effective communication with shareholders, the company did not have a formal communication policy during most of the year. The board fully understands the requirements of shareholder communication and has guidelines in place for handling such matters. A formal policy was adopted by the Board in June 2004.

### **Principle 7**

#### **Recognise and manage risk**

The Board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. Recommendation 7.1 requires the establishment of a risk committee. During the year Resonance Health Limited did not have a separately established risk committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the role of the Audit Committee and the main Board. The board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate risk committee.

Recommendation 7.1 also requires that the company has a formal risk management policy and internal compliance and control system. During the year, Resonance Health Limited did not have a formal risk management policy as such. However, the company carries out regular risk assessments in a timely manner and covers all aspects of the company. The company also has in place classes of insurance at levels which, in the reasonable opinion of the directors, are appropriate for its size and operations.

### **Principle 8**

#### **Encourage enhanced performance**

During the year the company did not conduct a performance evaluation of its board and members in accordance with recommendation 8.1. It was considered inappropriate as the company has a relatively new board, however, it did adopt a formal process of assessing performance in June 2004.

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 professional advice at the company's expense
- are entitled to request additional management information at any time

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

### **Principle 9**

#### **Remunerate fairly and responsibly**

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the managing director, and other senior executives. The Board has established a remuneration committee, comprising two non-executive directors. Members of the remuneration committee throughout the year were:

-Dr M Wooldridge(Chairman)

-Dr A Walker

Director disclosure requirements are dealt with in the notes to the financial statements.

### **Principle 10**

#### **Recognise the legitimate interests of stakeholders**

The Board recognises that the interests of all stakeholders will be best served when the company, its directors and staff adhere to high standards of business ethics and comply with the law.

The Board expects a high standard of ethical corporate behaviour from all directors and staff. As a result, a code of Business Ethics has been developed outlining the policies and procedures which operate within the company to ensure its exemplary reputation is maintained. The code of Business Ethics was adopted by the Board in June 2004

STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004

	Note	Consolidated		Parent	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Revenues from ordinary activities</b>	2	<b>49,135</b>	<b>19,001</b>	<b>24,567</b>	<b>19,001</b>
<b>Expenses from ordinary activities</b>					
Employee benefits expense		(707,258)	(45,000)	(344,297)	(45,000)
Consulting and professional services		(266,131)	(156,464)	(140,289)	(156,464)
Research and development		(473,069)	(13,636)	-	(13,636)
Depreciation and amortisation		(68,838)	-	(2,489)	-
Marketing		(98,800)	-	(33,865)	-
Statutory and compliance		(162,242)	(81,514)	(139,128)	(81,514)
Travel		(110,642)	(29,560)	(95,497)	(29,560)
Provision for non-recoverability of loan to controlled entity		-	-	(525,347)	-
Other expenses from ordinary activities	3	(182,432)	(77,552)	(206,332)	(77,552)
<b>Loss from ordinary activities before income tax</b>		<b>(2,020,277)</b>	<b>(384,725)</b>	<b>(1,462,677)</b>	<b>(384,725)</b>
Income tax benefit/(expense) relating to ordinary activities	4	-	-	-	-
<b>Loss from ordinary activities after income tax</b>		<b>(2,020,277)</b>	<b>(384,725)</b>	<b>(1,462,677)</b>	<b>(384,725)</b>
Profit from extraordinary items after income tax	3	-	6,487,283	-	6,487,283
<b>Net Profit / (Loss)</b>		<b>(2,020,277)</b>	<b>6,102,558</b>	<b>(1,462,677)</b>	<b>6,102,558</b>
Net loss attributable to outside equity interest		757,084	-	-	-
<b>Net Profit / (loss) attributable to members of the parent entity</b>		<b>(1,263,193)</b>	<b>6,102,558</b>	<b>(1,462,677)</b>	<b>6,102,558</b>
Basic earnings / (loss) per share (cents per share)	7	(2.8)		4.4	
Diluted earnings / (loss) per share (cents per share)	7	(2.8)		4.4	

The above statement of financial performance should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2004**

		Consolidated		Parent	
	Note	2004 \$	2003 \$	2004 \$	2003 \$
<b>Current Assets</b>					
Cash assets	8	1,272,680	716,977	319,526	716,977
Receivables	9	100,362	3,337	163,838	3,337
Other	10	12,128	-	12,128	-
<b>Total Current Assets</b>		<b>1,385,170</b>	<b>720,314</b>	<b>495,492</b>	<b>720,314</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	11	79,115	-	17,942	-
Receivables	9	-	-	1,174,653	-
Investments	12	-	-	1,300,000	-
Intangible assets	13	1,667,708	-	-	-
<b>Total Non-Current Assets</b>		<b>1,746,823</b>	<b>-</b>	<b>2,492,595</b>	<b>-</b>
<b>Total Assets</b>		<b>3,131,993</b>	<b>720,314</b>	<b>2,988,087</b>	<b>720,314</b>
<b>Current Liabilities</b>					
Payables	14	224,325	29,346	106,688	29,346
Provisions	15	38,543	-	12,274	-
<b>Total Current Liabilities</b>		<b>262,868</b>	<b>29,346</b>	<b>118,962</b>	<b>29,346</b>
<b>Total Liabilities</b>		<b>262,868</b>	<b>29,346</b>	<b>118,962</b>	<b>29,346</b>
<b>Net Assets</b>		<b>2,869,125</b>	<b>690,968</b>	<b>2,869,125</b>	<b>690,968</b>
<b>Equity</b>					
Parent entity interest					
Contributed equity	16	49,447,853	45,857,640	49,447,853	45,857,640
Option reserve		50,622	-	50,622	-
Accumulated losses	17	(46,429,865)	(45,166,672)	(46,629,350)	(45,166,672)
Total Parent entity interest		3,068,610	690,968	2,869,125	690,968
Outside equity interest		(199,485)	-	-	-
<b>Total Equity</b>		<b>2,869,125</b>	<b>690,968</b>	<b>2,869,125</b>	<b>690,968</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	Consolidated		Parent	
		2004 \$	2003 \$	2004 \$	2003 \$
		Inflows/(Outflows)		Inflows/(Outflows)	
<b>Cash flows from operating activities</b>					
Receipts from customers		3,300	-	-	-
Payments to suppliers and employees		(1,423,913)	(380,069)	(1,042,421)	(380,069)
Interest received		45,835	19,001	24,567	19,001
Deed of Company Arrangement Payment		-	(600,000)	-	(600,000)
Net cash used in operating activities	19(a)	(1,374,778)	(961,068)	(1,017,854)	(961,068)
<b>Cash flows from investing activities</b>					
Payments for investments		(250,000)	-	-	-
Loans to controlled entities		-	-	(1,700,000)	-
Payments for plant and equipment		(62,771)	-	(20,431)	-
Payments for research and development		(381,812)	-	-	-
Cash introduced on acquisition of controlled entity		284,230	-	-	-
Net cash used in investing activities		(410,353)	-	(1,720,431)	-
<b>Cash flows from financing activities</b>					
Bank overdraft compromised in Deed of Company Arrangement		-	226,838	-	226,838
Proceeds from issue of shares		2,564,986	1,701,000	2,564,986	1,701,000
Payments for share issue costs		(224,152)	(22,955)	(224,152)	(22,955)
Net cash provided by financing activities		2,340,834	1,904,883	2,340,834	1,904,883
Net increase in cash held		555,703	943,815	(397,451)	943,815
Cash at the beginning of the financial year		716,977	(226,838)	716,977	(226,838)
Cash at the end of the financial year	8	1,272,680	716,977	319,526	716,977

The above statement of cash flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report covers Resonance Health Limited as an individual company (parent entity) and the consolidated entity of Resonance Health Limited and its controlled entities. Resonance Health Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

#### (a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Resonance Health Limited ("company" or "parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Resonance Health Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences.

#### (b) Intangibles

##### *Acquisition Goodwill:*

Acquisition goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of businesses, is amortised over the period of time during which benefits are expected to arise.

Acquisition goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise, which is currently 10 years.

The unamortised balance of acquisition goodwill is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the goodwill is written down and the difference is charged to the Statement of Financial Performance.

#### (c) Income Tax

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

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

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the 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.

#### (d) Plant and Equipment

Items of plant and equipment are carried at the lower of cost less accumulated depreciation, and recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

#### *Depreciation*

Items of property, plant and equipment are depreciated over their estimated useful lives. The straight line method of depreciation is used and assets are depreciated from the date of acquisition. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Plant and equipment	3 – 10 years
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#### **(e) Investments**

Investments are stated at cost. Where there has been a permanent diminution in the value of an investment a provision for diminution is made.

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

#### **(f) Trade and other payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **(g) 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.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit/loss in equal instalments over the lease term.

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.

#### **(h) Earnings per share**

Basic EPS is calculated as net profit/loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit/loss attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

and divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### **(i) Share capital**

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**(j) Research and Development Expenditure**

Research and Development costs are charged to profit/loss from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. To date no research and development costs, including costs associated with patent applications, have been deferred.

**(k) Foreign Currency Transactions and Balances**

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

**(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 expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred. During the year the company contributed 9% of salaries and wages under the Superannuation Guarantee Act requirements.

**(m) Cash**

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

**(n) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

**(o) Goods and Services Tax (GST)**

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

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the ATO are classified as operating cash flows.

**(p) Comparative Figures**

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>NOTE 2: Revenue from ordinary activities</b>				
<b>Revenues from operating activities</b>				
— Liver Scan income	3,300	-	-	-
Total Revenue from operating activities	3,300	-	-	-
<b>Revenues from non-operating activities</b>				
— Interest received	45,835	19,001	24,567	19,001
	45,835	19,001	24,567	19,001
<b>Total revenues from ordinary activities</b>	<b>49,135</b>	<b>19,001</b>	<b>24,567</b>	<b>19,001</b>
<b>NOTE 3: Expenses from ordinary activities</b>				
Loss from ordinary activities before income tax has been determined after charging as expenses:				
Depreciation/amortisation of non-current assets:				
— Fixtures and equipment	17,883	-	2,489	-
— Amortisation of goodwill	50,955	-	-	-
Total depreciation and amortisation expenses	68,838	-	2,489	-
Rental expense on operating leases	93,272	18,300	79,042	18,300
<b>Extraordinary Items</b>				
Gain on settlement of Deed of Company Arrangement	-	7,140,283	-	7,140,283
Deed of Company Arrangement Payment	-	(653,000)	-	(653,000)
	-	6,487,283	-	6,487,283

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

	Consolidated	Parent	Consolidated	Parent
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>NOTE 4: Income tax benefit</b>				
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:				
Profit/(loss) from ordinary activities before income tax expense	(2,020,277)	6,102,558	(1,462,677)	6,102,558
Less gain on settlement of DOCA	-	(7,140,283)	-	(7,140,283)
Plus DOCA payment	-	653,000	-	653,000
Actual Operating Profit / (Loss)	<u>(2,020,277)</u>	<u>(384,725)</u>	<u>(1,462,677)</u>	<u>(384,725)</u>

Prima facie tax payable on loss from ordinary activities before income tax at 30% (2003: 30%)	(606,083)	(115,418)	(438,803)	(115,418)
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Tax effect on permanent differences:

- Amortisation not deductible	15,287	-	-	-
Income tax adjusted for permanent differences	<u>(590,796)</u>	<u>(115,418)</u>	<u>(438,803)</u>	<u>(115,418)</u>
Benefit of income tax losses not brought to account	590,796	115,418	438,803	115,418
Income tax benefit attributable to loss from ordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Future income tax benefit from tax losses is not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.

The future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the company in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**NOTE 5: Director and executive disclosures**

**Remuneration of directors and executives**

Specified Directors' Remuneration

2004	Primary	Post employment	Equity	Total
	Salary & Fees	Superannuation Contributions	Options	
	\$	\$	\$	\$
Dr M Wooldridge - Chairman	31,250	-	10,400	41,650
Mr T. Fitzgerald – Managing Director	163,578	10,800	3,200	177,578
Dr C Bennett - Director	39,068	1,716	10,400	51,184
Dr A. Walker - Director	19,068	1,716	4,800	25,584
<i>Past directors who held office during the year:</i>				
Mr D Steinepreis	-	-	-	-
Mr H Warner	18,349	1,651	-	20,000
Mr G Steinepreis	-	-	-	-
Mr G Whiddon	-	-	-	-
<b>Total Remuneration</b>	<b>271,313</b>	<b>15,883</b>	<b>28,800</b>	<b>315,996</b>

A specified director means a person who was, at any time during the reporting period, a director of the entity.

Specified Executives

“Specified Executives” are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. Accordingly there is only one employee in this category who is the Managing Director Mr Tony Fitzgerald classified above as a specified director. Being a working Board, strategic direction and decision is exercised through the Board.

**Options provided as remuneration**

Details of options over ordinary shares in the company provided as remuneration to each director of Resonance Health Limited are set out below. When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 15.

Name	Number of options granted during the year	Number of options vested during the year
Dr M Wooldridge - Chairman	650,000	650,000
Mr T. Fitzgerald – Managing Director	800,000	800,000
Dr C Bennett - Director	650,000	650,000
Dr A. Walker - Director	300,000	300,000
	<b>2,400,000</b>	<b>2,400,000</b>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**NOTE 5: Director and executive disclosures (cont'd)**

**Equity instrument disclosures relating to directors and executives**

**Option Holdings**

The numbers of options over ordinary shares in the company held during the financial year by each director of Resonance Health Limited including their personally related entities are set out below.

Number of quoted options held by Specified Directors

	Opening Balance	Options Exercised	Granted as Remuneration	Net Change Other*	Balance 30.6.04
<i>Specified Directors</i>					
Dr M Wooldridge - Chairman	-	-	650,000	460,000	1,110,000
Mr T. Fitzgerald – Managing Director	-	-	800,000	55,000	855,000
Dr C Bennett - Director	-	-	650,000	-	650,000
Dr A. Walker - Director	-	-	300,000	290,000	590,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,400,000</b>	<b>805,000</b>	<b>3,205,000</b>

\* “Net Change Other” includes those options that were issued during the year other than as remuneration through on market purchase/sale.

**Shareholdings**

The numbers of shares in the company held during the financial year by each director of Resonance Health Limited including their personally related entities are set out below.

Number of Shares held by Specified Directors

	Opening Balance	Received as Remuneration	Net Change Other*	Received during the year on exercise of options	Balance 30.6.04
<i>Specified Directors</i>					
Dr M. Wooldridge - Chairman	-	-	200,000	-	200,000
Mr T. Fitzgerald - Managing Director	-	-	386,833	3,500	390,333
Dr C. Bennett – Director	-	-	-	-	-
Dr A. Walker - Director	-	-	-	290,000	290,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>586,833</b>	<b>293,500</b>	<b>880,333</b>

\* “Net Change Other” includes those shares that were issued during the year through on market purchase/sale and through the Prospectus dated 6 October 2003.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**Incentive Shares**

Number of Incentive Shares held by Specified Directors

	Balance 01.07.03	Received as Remuneration	Converted to Ordinary Shares	Net Change Other*	Balance 30.6.04
<i>Specified Directors</i>					
Dr M. Wooldridge – Chairman (1)	-	-	-	37,113	37,113
Mr T. Fitzgerald – Managing Director (2)	-	-	-	61,857	61,857
Dr C. Bennett – Director	-	-	-	-	-
Dr A. Walker - Director	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,970</b>	<b>98,970</b>

\* “Net Change Other” includes those shares that were issued during the year through the Prospectus dated 6 October 2003.

Notes

(1) Dr Wooldridge holds 12,371 Class D Incentive Shares, 12,371 Class E Incentive Shares and 12,371 Class F Incentive Shares.

(2) Mr Fitzgerald holds 20,619 Class D Incentive Shares, 20,619 Class E Incentive Shares and 20,619 Class F Incentive Shares.

**Incentive Options**

Number of Incentive Options held by Specified Directors

	Balance 01.07.03	Received as Remuneration	Converted to Ordinary Shares	Net Change Other*	Balance 30.6.04
<i>Specified Directors</i>					
Dr M. Wooldridge – Chairman (1)	-	-	-	30,927	30,927
Mr T. Fitzgerald – Managing Director (2)	-	-	-	51,546	51,546
Dr C. Bennett – Director	-	-	-	-	-
Dr A. Walker - Director	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82,473</b>	<b>82,473</b>

\* “Net Change Other” includes those shares that were issued during the year through the Prospectus dated 6 October 2003.

Notes

(1) Dr Wooldridge holds 10,309 Class D Incentive Options, 10,309 Class E Incentive Options and 10,309 Class F Incentive Options.

(2) Mr Fitzgerald holds 17,182 Class D Incentive Options, 17,182 Class E Incentive Options and 17,182 Class F Incentive Options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**Remuneration Practices**

The Board of Directors of Resonance Health Limited is responsible for determining and reviewing compensation arrangements for directors, chief executive officer and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, the particular experience of the individual concerned and the overall performance of the company with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys are used where necessary.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of \$250,000 per annum have been approved by the Company in a general meeting. 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 other than the holders of Performance Shares which are not convertible to ordinary fully paid shares until various milestones are achieved.

*Chief Executive Officer's Employment Agreement – Tony Fitzgerald*

Pursuant to an agreement dated 3 October 2003, Resonance engaged Tony Fitzgerald to perform duties associated with the position of Chief Executive Officer.

The main terms of the agreement are:

- (a) Term of 3 years
- (b) Resonance agrees to pay Mr Fitzgerald a base salary of \$100,000 per annum, with the parties to agree to option based performance incentives.
- (c) Resonance owns all intellectual property created by Mr Fitzgerald in the course of his employment.

**NOTE 6: Auditors' remuneration**

Remuneration of the auditor of the company for:

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$
— auditing or reviewing the financial report	15,030	22,950	15,030	22,950
— other services	9,000	-	9,000	-
	<u>24,030</u>	<u>22,950</u>	<u>24,030</u>	<u>22,950</u>

**NOTE 7: Earnings per share**

- (a) Reconciliation of earnings used in calculating earnings per share

Net loss	(2,020,277)
Net loss attributable to outside equity interest	757,084
Earnings used in the calculation of basic and dilutive earnings per share	<u>(1,263,193)</u>

- (b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and dilutive earnings per share	<u>45,577,851</u>
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- (c) Classification of securities

Diluted earnings per share will not be any different to basic earnings per share, as it is not considered that the options on issue as disclosed in Note 16(b) will have a dilutive effect on EPS (as the company incurred a loss for the year).

**NOTE 8: Cash assets**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$
Deposits at call	1,272,680	716,977	319,526	716,977
	<u>1,272,680</u>	<u>716,977</u>	<u>319,526</u>	<u>716,977</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**NOTE 9: Receivables**

	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Current				
Other debtors	100,362	3,337	163,838	3,337
Non Current				
Loans to Controlled Entities	-	-	1,700,000	-
Provision for non-recoverability	-	-	(525,347)	-
	-	-	1,174,653	-
Movement in provision for non-recoverability				
- balance at the beginning of year	-	-	-	-
- increase in provision during the year	-	-	(525,347)	-
- balance at end of year	-	-	(525,347)	-

**NOTE 10: Other assets**

Current				
Prepayments	12,128	-	12,128	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

<b>NOTE 11: Property, plant and equipment</b>	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Fixtures and equipment				
At cost	101,801	-	20,431	-
Less: Accumulated depreciation	(22,686)	-	(2,489)	-
Total property, plant and equipment	<u>79,115</u>	<u>-</u>	<u>17,942</u>	<u>-</u>

**Reconciliation**

Reconciliation of the carrying amount of each class of property, plant and equipment is set out below:

2004	Fixtures and Equipment \$
Balance at the beginning of the year	-
Additions	62,771
Additions through acquisition	39,030
Disposals	-
Depreciation expense	(17,883)
Depreciation through acquisition	(4,803)
Carrying amount at the end of the year	<u>79,115</u>

<b>Note 12 Investments</b>	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Non-Current				
Investment in controlled entities – at cost (Note 23)	-	-	1,300,000	-

The carrying value of the investment in controlled entities is dependent on the successful development and commercialisation of the FerriScan technology or realisation by sale, by the company's controlled entities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**NOTE 13: Intangible assets**

	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Goodwill on consolidation	1,718,663	-	-	-
Accumulated amortisation	(50,955)	-	-	-
Total	1,667,708	-	-	-

The carrying value of goodwill on consolidation is dependent on the successful development and commercialisation of the FerriScan technology embodied in this asset or realisation by sale, by the company's controlled entities.

**NOTE 14: Payables**

Current				
Trade creditors	95,926	29,346	21,997	29,346
Sundry creditors and accruals	128,399	-	84,691	-
	224,325	29,346	106,688	29,346

**NOTE 15: Provisions**

Current				
Employee entitlements	38,543	-	12,274	-
Aggregate employee benefits liability	38,543	-	12,274	-
Number of employees at balance date	16	0	4	0

**Employee Option Plan**

The establishment of the Resonance Health Limited Incentive Option Scheme was approved by shareholders at a general meeting of shareholders held 13 May 2004. The scheme is designed to provide employees with an ownership interest in the company and to provide additional incentives for employees to increase profitability and returns to shareholders.

Options are granted under the plan for no consideration.

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

When exercisable, each option is convertible into one ordinary share at the following times in any given year:

- (1) between 17 June and 30 June;
- (2) between 17 September and 30 September;
- (3) between 18 September and 31 December; and
- (4) between 18 March and 31 March.

The exercise price of options shall be as the directors in their absolute discretion determine, provided the exercise price shall not be less than the greater of 20 cents or the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five business days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

Options granted are conditional on future employment.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

**Employee Option Plan (Continued)**

Set out below are summaries of options granted under the scheme.

Specified Directors	Grant Date	Expiry Date	Value per option at grant date	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Balance at end of the year
Dr M Wooldridge - Chairman	13 May 2004	7 July 2009	\$0.016	\$0.30	-	650,000	-	650,000
Mr T Fitzgerald – Managing Director	13 May 2004	7 July 2009	\$0.004	\$0.40	-	800,000	-	800,000
Dr C Bennett – Director	13 May 2004	7 July 2009	\$0.016	\$0.30	-	650,000	-	650,000
Dr A Walker – Director	13 May 2004	7 July 2009	\$0.016	\$0.30	-	300,000	-	300,000
Total					-	2,400,000	-	2,400,000

Options have been valued using the Black and Scholes method of valuation.

No options have been exercised during the financial year and to the date of this report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

**NOTE 16: Contributed equity**

(a) Issued and paid up capital

	2004		2003	
	Number	\$	Number	\$
<b>Issued and paid up capital</b>				
60,603,543 ordinary shares (2003: 271,393,005)	60,603,543	49,447,853	271,393,005	45,857,640
<b>Movements during the period</b>				
<b>Ordinary shares</b>	Number of shares		Issue price	\$
Balance at the beginning of the financial year	271,393,005			45,857,640
Consolidation of shares on a 10 for 1 basis	27,141,476		-	-
Shares issued:				
- Shares placement	13,000,000		\$0.10	1,300,000
- Shares issued on acquisition of IVB Holdings Pty Ltd	13,000,000		\$0.10	1,300,000
- Exercise of options	1,346,152		\$0.15	201,924
- Exercise of advisor options	1,509,000		\$0.10	150,900
- Shares issued pursuant to share purchase plan	4,606,915		\$0.187	861,496
Share issue expenses	-		-	(224,147)
Balance at end of financial year	<u>60,603,543</u>			<u>49,447,812</u>
<b>Incentive shares</b>				
Issue of Class A incentive shares	9,000,000		\$0.0001	9
Issue of Class C-F incentive shares	32,000,000		\$0.0001	32
Balance at end of financial year	<u>41,000,000</u>			<u>41</u>
<b>Total</b>	<u><b>101,603,543</b></u>			<u><b>49,447,853</b></u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *(b) Share Options*

Options over ordinary shares issued during the year and outstanding at balance date:

#### *49,006,016 Listed Options Expiring 15 January 2007 (ASX Code: RHTOA)*

On 7 November 2003, 50,346,503 options were issued over ordinary shares, exercisable any time prior to their expiry date being 15 January 2007. These options were issued pursuant to the GEO2 Limited prospectus dated 6 October 2003. The options are listed on the ASX and have an exercise price of \$0.15 if exercised prior to 7 November 2004. For the period 8 November 2004 to the expiry date of the Options (15 January 2008), the exercise price will increase to \$0.40 cents per Share. If a shareholder exercises an Option on or before 7 November 2004 they will receive (for free) one new Option for each Option exercised on the same terms and conditions as the existing options.

1,340,487 fully paid ordinary shares of Resonance Health Limited were issued during the year ended 30 June 2004 on the exercise of options.

From the end of the reporting period to the date of this annual report 5,665 options have been converted into fully paid ordinary shares with exercise proceeds received by the company of \$850.

#### *2,849,487 Listed Options Expiring 15 January 2008 (ASX Code: RHTOB)*

Over the reporting period 2,849,487 options have been issued on exercise of the listed options expiring 15 January 2007 (ASX Code: RHTOA) as detailed above which are referred to as the free issued options. The options are listed on the ASX and have an exercise price of \$0.40, exercisable any time prior to their expiry date of 15 January 2008.

From the end of the reporting period to the date of this annual report a further 5,665 options have been issued as a result of converting the listed options expiring 15 January 2007 at an exercise price of 15 cents (ASX Code: RHTOA).

#### *1,241,000 Unlisted Advisor Options Expiring 15 January 2007.*

On 7 November 2003, 2,750,000 options were issued over ordinary shares to advisors, exercisable any time prior to their expiry date of 15 January 2007. These options were issued pursuant to the GEO2 Limited prospectus dated 6 October 2003. The options have an exercise price of \$0.10 if exercised prior to 7 November 2004. For the period 8 November 2004 to the expiry date of the Options (15 January 2008), the exercise price will increase to \$0.40 cents per Share. If an optionholder exercises an Option on or before 7 November 2004 they will receive (for free) one new Option for each Option exercised on the same terms and conditions as the existing options.

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

### *(c) Terms and conditions of ordinary shares*

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

*(d) Terms and conditions of performance shares and options*

*41,000,000 unquoted performance shares and 28,000,000 unquoted performance options*

Each Incentive Share entitles the Holder to convert the Incentive Share into an ordinary Share and an Incentive Share Option into a share option in accordance with the following Milestones.

- (a) Class A Incentive Shares and Class A Incentive Share Options 9,000,000 Resonance Shares and the right to subscribe for 4,000,000 Resonance options at an issue price of 0.1 cents each with an exercise price of 15 cents each exercisable on or before 15 January 2007 upon the issuance of USA patent number 10/069272 and the expiration of 12 months from Settlement. If the Resonance options are exercised within 12 months from the date of issue then for every option exercised a further Resonance option will be issued with an exercise price of 40 cents each and expiry date of 15 January 2008.
- (b) Class B Incentive Share Options 3,750,000 free unlisted options in Resonance to HealthTec and 250,000 free unlisted options in GEO2 to Paul Hearne with an exercise price of 20 cents per option and an expiry date 3 years from the date of issue and upon the issuance of USA patent number 10/069272 and the expiration of 12 months from Settlement.
- (c) Class C Incentive Shares 8,000,000 Resonance Shares upon the lodgement of an application for registration of the IVB software and R2-MRI measurement technique with the Australian Therapeutic Goods Association (TGA) and the expiration of 12 months from Settlement.
- (d) Class D Incentive Shares and Class D Incentive Share Options 8,000,000 Resonance Shares, 3,333,333 free unlisted Resonance options with an exercise price of 20 cents per Resonance option and an expiry date 3 years from the date of issue and 3,333,333 unlisted Resonance options with an exercise price of 30 cents per Resonance option and an expiry date 3 years from the date of issue upon achievement of the Australian Therapeutic Goods Association (TGA) listing of the IVB test and the expiration of 12 months from Settlement.
- (e) Class E Incentive Shares and Class E Incentive Share Options 8,000,000 Resonance Shares, 3,333,333 free unlisted Resonance options with an exercise price of 20 cents per Resonance option and an expiry date 3 years from the date of issue and 3,333,333 unlisted Resonance options with an exercise price of 30 cents per Resonance option and an expiry date 3 years from the date of issue upon achievement of Federal Drug Administration (FDA) approval of the IVB test in the United States of America and the expiration of 12 months from Settlement.
- (f) Class F Incentive Shares and Class F Incentive Share Options 8,000,000 Resonance Shares, 3,333,334 free unlisted Resonance options with an exercise price of 20 cents per Resonance option and an expiry date 3 years from the date of issue and 3,333,334 unlisted Resonance options with an exercise price of 30 cents per Resonance option and an expiry date 3 years from the date of issue upon achievement of Medicare Services Advisory Committee (MSAC) assessment completed and reimbursement number received for at least one clinical application of the IVB Technology and the expiration of 12 months from Settlement.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 17: Accumulated losses

	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Accumulated losses at the beginning of the financial year	(45,166,672)	(51,269,230)	(45,166,673)	(51,269,231)
Net loss attributable to the members of Resonance Health Limited	(1,263,193)	6,102,558	(1,462,677)	6,102,558
Accumulated losses at the end of the financial year	<u>(46,429,865)</u>	<u>(45,166,672)</u>	<u>(46,629,350)</u>	<u>(45,166,673)</u>

### NOTE 18: Segment reporting

#### Business and Geographical Segments

The sole activity of the consolidated entity is that of commercialisation the FerriScan technology – a novel, non-invasive technology for the diagnosis and monitoring of iron overload diseases, and as such, represents only one reportable business and geographical segment.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

**NOTE 19: Cash flow information**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$
(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax				
Profit / (Loss) from ordinary activities after income tax	(2,020,277)	6,102,558	(1,462,677)	6,102,558
Non-cash flows in loss from ordinary activities:				
Depreciation and amortisation	68,838	-	2,489	-
Write down of investments to recoverable amount	-	-	525,347	-
Research and development	381,812	-	-	-
Changes in operating assets and liabilities:				
(Increase)/decrease in receivables	(109,153)	(3,337)	(171,137)	(3,337)
Increase/(decrease) in trade creditors and borrowings	265,459	29,346	75,850	29,346
Increase/(decrease) in provisions	38,543	-	12,274	-
Write down due to administration and Deed of Company Agreement	-	(7,089,635)	-	(7,089,635)
Net cash used in operating activities	<u>(1,374,778)</u>	<u>(961,068)</u>	<u>(1,017,854)</u>	<u>(961,068)</u>

(b) Acquisition of controlled entity

The company acquired 100% of the issued capital of IVB Holdings Pty Ltd (which in turn has a 51% voting entitlement in Inner Vision Biometrics Pty Ltd) in November 2003. A 30.9% equity holding in Inner Vision Biometrics Pty Ltd has been acquired progressively up to balance date. Details of the initial acquisition were as follows:

Consideration

- Issue of shares 1,300,000

Net assets of IVB Holdings Pty Ltd and Inner Vision Biometrics Pty Ltd at acquisition date:

Cash	284,230
Plant and equipment	34,227
Other creditors	<u>(5,920)</u>
	312,537

Outside equity interests	<u>(624,400)</u>
	(311,863)

Goodwill on consolidation	<u>1,611,863</u>
	<u>1,300,000</u>

(c) Non-Cash Financing and Investing Activities

The consideration for the acquisition mentioned in Note 19(b) above comprised of the issue of 13,000,000 fully paid ordinary shares in the company at an issue price of 10 cents per share.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 20: Funding Requirements

Shareholders should be aware that the Company is required to raise additional capital in the 2005 financial year to satisfy its own working capital requirements and to continue funding its investment in Inner Vision Biometrics Pty Ltd. The Directors anticipate this funding to come from two primary sources, firstly the exercise of \$0.15 Options on issue and listed under the ASX code RHTOA and secondly, via a placement of new shares to supplement any shortfall from the exercise of RHTOA Options.

The RHTOA Options expire on 15 January 2007. If however an Option is exercised on or before 8 December 2004, the holder is entitled to receive one free new Option exercisable at \$0.40 until 15 January 2008 and listed on the ASX under the code RHTOB. The Directors believe that a number of current Option holders are intending to exercise their RHTOA Options prior to 8 December 2004. At the date of this report there are 49,000,351 RHTOA Options available for exercise, with a total exercise value of \$7,350,053 (an amount considerably in excess of the Company's working capital and investment requirements). To the extent that the exercise of these Options does not provide the Company with sufficient working capital to meet its obligations throughout the year, the Directors have commenced discussions with a stock broking firm to undertake a placement of new capital to provide for any shortfall in working capital of the Company.

At the date of this report the Directors can confirm that a number of investors, via the stock broking firm, have confirmed their interest in participating in a new issue of capital to support the Company's working capital requirements. On the basis of this interest, the Directors have a reasonable expectation that continuing funding will be available to the Company for the 2005 year.

### NOTE 21: Related party transactions

Transactions with 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:

#### *Specified Directors' and Specified Executives' Remuneration*

Details of specified directors' and specified executives' remuneration are disclosed in Note 5 to the financial statements.

#### *Transactions with Specified Directors*

- (a) Mr Tony Fitzgerald is a principal of HealthTec Growth Partners Pty Ltd which has provided corporate advisory services and financial management services to the consolidated entity on normal commercial terms amounting to \$38,000. There are no amounts outstanding to HealthTec Growth Partners as at 30 June 2004.

#### *Transactions with past directors*

These directors held office from the start of the year until the company's reconstruction was completed with the appointment of a new board of directors and management team.

- (a) Ord Street Services Pty Ltd a company associated with Mr David Steinepreis was paid \$20,000 in fees and \$13,200 for the provision of office facilities.
- (b) LeisureWest Consulting Pty Ltd a company associated with Mr Gary Steinepreis was paid \$20,000 in fees.
- (c) Ascent Capital Pty Ltd a company associated with Mr Gary Steinepreis, Mr David Steinepreis and Mr Hugh Warner was paid \$50,000 in fees.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

**NOTE 21: Related party transactions (Continued)**

*Transactions with Related Parties in the Wholly Owned Group*

- (a) During the year the company has provided interest free loans to IVB Holdings Pty Ltd totalling \$1,700,000 with no fixed repayment date. A provision for non-recoverability of this loan amounting to \$525,347 has been recorded at balance date and this remains outstanding at balance date.

**NOTE 22: Financial instruments**

**(a) Terms, conditions and accounting policies**

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
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**(i) Financial assets**

Cash	8	Cash is carried at the lower of cost and net realisable value.	Cash balances in bank accounts receive the bank benchmark interest rates. Cash is at call.
Receivables – other	9	Other receivables are carried at nominal amounts due.	
Receivables - related parties/entities	9	Amounts (other than trade debts) receivable from related parties/entities are carried at nominal amounts due.	Details are set out in Note 9.

**(ii) Financial liabilities**

Trade creditors and accruals	14	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30 day terms.
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	Floating Interest Rate		Non-interest Bearing		Total		Weighted Average Effective Interest Rate
	2004	2003	2004	2003	2004	2003	
<b>Financial Assets:</b>							
Cash	1,272,680	716,977	-	-	1,272,680	716,977	5.25%
Receivables	-	-	100,362	3,337	100,362	3,337	
Other	-	-	12,128	-	12,128	-	
<b>Total Financial Assets</b>	<b>1,272,680</b>	<b>716,977</b>	<b>112,490</b>	<b>3,337</b>	<b>1,385,170</b>	<b>720,314</b>	
<b>Financial Liabilities:</b>							
Payables	-	-	224,325	29,346	224,325	29,346	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>224,325</b>	<b>29,346</b>	<b>224,325</b>	<b>29,346</b>	

(a) Interest Rate Risk

All financial assets and financial liabilities are non-interest bearing except for cash balances which are deposited at variable interest rates.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

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

(c) Net Fair Values

The net fair values of all monetary financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the Statement of Financial Position and Notes to the Financial Statements.

**NOTE 23: Investments in controlled entities**

Name of entity	Country of incorporation	Class of shares	Equity holding
IVB Holdings Pty Ltd	Australia	Ordinary	100%
Inner Vision Biometrics Pty Ltd	Australia	Ordinary	30.9%

Acquisition of controlled entity

The company acquired all the issued capital of IVB Holdings Pty Ltd in November 2003. IVB Holdings Pty Ltd has a 51% controlling interest in Inner Vision Biometrics Pty Ltd via voting rights and is increasing its ownership interest in that company to 51% via the staged injection of development capital. Consideration for the acquisition of IVB Holdings Pty Ltd was the issue of 13 million Resonance Health shares at a fair value of 10 cents per share.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 24 Commitments for expenditure

Operating leases	Consolidated		Parent	
	2004 \$	2003 \$	2004 \$	2003 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises are payable as follows:				
Within one year	40,059	-	40,059	-
Later than 1 year but no later than 5 years	10,015	-	10,015	-
Total commitments not recognised in the financial statements	50,074	-	50,074	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 25 Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for reporting periods commencing on or after 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year. Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period.

The company's management and Board are assessing the significance of these changes and preparing for their implementation. An IFRS committee has been established to oversee and manage the company's transition to IFRS. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The company's management and Board are of the opinion that the key potential implications in the company's accounting policies which will arise from the adoption of IFRS are:

#### *Taxation*

Under IFRS, tax assets and liabilities are recognised using the balance sheet approach rather than an income statement approach. In addition, tax assets are recognised when recovery is probable rather than assured beyond reasonable doubt and/or virtually certain. This will result in a change to the current accounting policy, under which deferred tax balances are determined using an income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

#### *Impairment of assets*

The company currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. In terms of AASB 136 "Impairment of Assets", the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

#### *Equity-based compensation benefits*

Under AASB 2 "Share Based Payment", equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

### NOTE 26 Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company and the consolidated entity, the results of those operations, or the state of affairs in future financial years.

## DIRECTORS' DECLARATION

In the opinion of the directors of the company :

1. the financial statements and notes, as set out on pages 21 to 45 are in accordance with the Corporations Act 2001; and
  - a. comply with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2004 and of the financial performance for the year ended on that date of the Company and the consolidated entity; and
2. 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.

On behalf of the Board

Mr T Fitzgerald  
Director

Place: Perth, WA

Dated 30<sup>th</sup> day of September 2004

## **INDEPENDENT AUDIT REPORT**

**To the members of  
RESONANCE HEALTH LIMITED**

### **Scope**

#### *The Financial Report and Directors' Responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Resonance Health Limited ("the company") and the consolidated entity for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during the year.

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

#### *Audit Approach*

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

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

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

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

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

### **Independence**

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

### **Audit Opinion**

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Resonance Health Limited and the consolidated entity as at 30 June 2004 and of their performance for the year then ended; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**HLB MANN JUDD**  
Chartered Accountants

**Perth, Western Australia  
30 September 2004**

**L DI GIALONARDO**  
Partner

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is disclosed in accordance with Section 4.10 of the Australian Stock Exchange Ltd Listing rules in respect of listed public companies only.

The following information is supplied as at 22 September 2004

### 1. Analysis of Shareholdings

#### a. Distribution of Shareholders (ASX Code: RHT)

Number of Ordinary Shares Held	Ordinary Shares	
	Number of holders	Number of shares
1 – 1,000	4,187	803,294
1,001 – 5,000	452	1,169,214
5,001 – 10,000	323	2,314,663
10,001 – 100,000	707	21,776,522
100,001 – and over	83	34,539,850
	5,752	60,603,543

The number of shareholdings holding less than a marketable parcel of shares are 4,547

At the date of this report the company is in the process of selling unmarketable parcels of shares pursuant to Clause 3 of the company's constitution. The company is intending to sell the unmarketable parcels of shares of 3,750 shareholders which represent 1,101,543 ordinary shares.

#### b. Distribution of Optionholders (ASX Code: RHTOA)

	Options	
	Number of holders	Number of options
1 – 1,000	351	72,177
1,001 – 5,000	262	764,403
5,001 – 10,000	135	986,130
10,001 – 100,000	230	7,712,494
100,001 – and over	80	39,465,147
	1,058	49,000,351

#### c. Distribution of Optionholders (ASX Code: RHTOB)

	Options	
	Number of holders	Number of options
1 – 1,000	7	2,568
1,001 – 5,000	23	78,249
5,001 – 10,000	5	37,334
10,001 – 100,000	15	756,668
100,001 – and over	4	1,980,333
	54	2,855,152

### 2. 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.

Options

- No voting rights.

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

3. Twenty Largest Shareholders of quoted Ordinary Shares

	Name	Number of Ordinary Shares	Percentage of Total
1.	Five Tigers Investment Corporation Ltd	4,000,000	6.60
2.	Lands Kirwan Tong Stockbrokers	2,500,000	4.12
3.	Minton Pty Ltd	2,368,333	3.91
4.	ANZ Nominees Limited	1,417,118	2.34
5.	TV Games Pty Ltd	1,120,000	1.85
6.	Mr Robert Francis Panton	1,015,000	1.67
7.	A Di Bella Pty Ltd	1,000,000	1.65
8.	Mondo Electronics Pty Ltd <The Simon Panton Family A/C>	1,000,000	1.65
9.	RJ Trading Pty Ltd	1,000,000	1.65
10.	Walker Corporation Pty Ltd	850,000	1.40
11.	Pacific Healthcare Investments Limited	842,499	1.39
12.	Mr Mark Evans	693,405	1.14
13.	Mr Colin Evans	693,405	1.14
14.	Mr Matthew Storey	666,667	1.10
15.	Mondo Electronics Pty Ltd <Mondo Electronics S/F A/C>	600,000	0.99
16.	McNicol Investments Pty Ltd <The McNical Investment A/C>	500,000	0.82
17.	Dominion Investments Pty Ltd	451,200	0.74
18.	KBAM Pty Ltd	450,000	0.74
19.	Mr Murray Ken Payne	440,000	0.73
20.	Sante Holdings Pty Ltd <DEC Family Account>	415,333	0.68
		22,022,960	36.33

4. Twenty Largest Optionholders (ASX Code: RHTOA)

		Number of Options	Percentage of Total
1.	ANZ Nominees Limited	9,571,452	19.53
2.	Five Tigers Investment Corporation Ltd	4,000,000	8.16
3.	Minton Pty Ltd	2,965,000	6.05
4.	Lands Kirwan Tong Stockbrokers	1,250,000	2.55
5.	Mr Finian MacCana <Lambert Superannuation A/C>	1,247,070	2.54
6.	Mr Robert Francis Panton	838,333	1.71
7.	Mr Ronald John Haack	720,000	1.47
8.	RJ Trading Pty Ltd	700,000	1.43
9.	A Di Bella Pty Ltd	666,667	1.36
10.	Mr Matthew Storey	666,667	1.36
11.	Anahein Pty Ltd	615,999	1.26
12.	Ms Sheenagh Joy Tsugawa	597,000	1.22
13.	TV Games Pty Ltd	591,667	1.21
14.	Matopos Holdings Limited	500,000	1.02
15.	Robyn Johnston <Patacait Family A/C>	494,000	1.01
16.	Mr Keith Peter Guiney	410,000	0.84
17.	Gainor Pty Ltd	400,000	0.82
18.	Mr Randal Gavin Payne	378,666	0.77
19.	Mr Kevin Harvey Payne & Mrs Ruth Linda Payne <KP Super Fund A/C>	370,000	0.75
20.	Mr Paul Robert Hearne	350,000	0.71
		27,332,521	55.77

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)

4. Twenty Largest Optionholders (ASX Code: RHTOB)		Number of Options	Percentage of Total
1.	ANZ Nominees Limited	812,500	28.46
2.	Goffacan Pty Ltd	690,000	24.17
3.	Mr Stephen Pearson & Mr Robert Pearson <S W Pearson Super Account>	344,500	12.06
4.	Mr Gary Catlin	133,333	4.67
5.	Mr Peter William Bromilow	100,000	3.50
6.	Mrs Tracey Ann Blake	100,000	3.50
7.	RJ Trading Pty Ltd	100,000	3.50
8.	Creative Alert Pty Ltd	80,000	2.80
9.	Mr Tim Smith	66,667	2.33
10.	Mr Richard George Payne	60,000	2.10
11.	Mr Erik Asger Berthelson	53,334	1.87
12.	Mr James William Pennington	36,667	1.28
13.	Minton Pty Ltd	35,000	1.22
14.	Miss Louise Andrea Payne	25,000	0.87
15.	Mr Paul Robert Hearne	25,000	0.87
16.	Mr Stephen Warwick Pearson	20,000	0.70
17.	Manhattan Investments Pty Ltd	20,000	0.70
18.	Joan Marquet	20,000	0.70
19.	Mr Norman James Baker <Baker Family A/C>	15,000	0.53
20.	Mr George Cross	10,000	0.35
		2,747,001	96.20

5. Escrowed and Unquoted Securities

The number and class of securities subject to a voluntary escrow and date of escrow are:

	Number of holders	Number	Date escrow period ends
<b>Quoted Ordinary Shares:</b>	29	13,000,000	7 November 2004
Total Ordinary Shares	29	13,000,000	

*Substantial Holders:*

Five Tigers Investment Corporation Ltd holds 3,999,999 of the escrowed quoted ordinary shares representing 30.8% of the total escrowed quoted ordinary shares on issue.

**Incentive Shares:**

<b>Class A</b>	26	9,000,000	Subject to milestones
Total Class A	26	9,000,000	

Pacific Healthcare Ltd holds 1,800,000 of the unquoted Class A Incentive shares representing 20% of the total unquoted Class A Incentive shares on issue.

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)**

<b>Class C</b>	10	8,000,000	Subject to milestones
Total Class C	10	8,000,000	

Pacific Healthcare Ltd holds 4,375,000 of the unquoted Class C Incentive shares representing 55% of the total unquoted Class C Incentive shares on issue.

Direct Capital Pty Ltd holds 1,800,000 of the unquoted Class C Incentive shares representing 55% of the total unquoted Class C Incentive shares on issue.

<b>Class D</b>	35	8,000,000	Subject to milestones
Total Class D	35	8,000,000	

Pacific Healthcare Ltd holds 3,908,659 of the unquoted Class D Incentive shares representing 49% of the total unquoted Class D Incentive shares on issue.

Direct Capital Pty Ltd holds 1,680,000 of the escrowed unquoted Class D Incentive shares representing 21% of the total escrowed unquoted Class D Incentive shares on issue.

<b>Class E</b>	35	8,000,000	Subject to milestones
Total Class E	35	8,000,000	

Pacific Healthcare Ltd holds 3,908,659 of the unquoted Class D Incentive shares representing 49% of the total unquoted Class D Incentive shares on issue.

Direct Capital Pty Ltd holds 1,680,000 of the unquoted Class D Incentive shares representing 21% of the total unquoted Class D Incentive shares on issue.

<b>Class F</b>	35	8,000,000	Subject to milestones
Total Class F	35	8,000,000	

Pacific Healthcare Ltd holds 3,908,659 of the unquoted Class D Incentive shares representing 49% of the total escrowed unquoted Class D Incentive shares on issue.

Direct Capital Pty Ltd holds 1,680,000 of the unquoted Class D Incentive shares representing 21% of the total escrowed unquoted Class D Incentive shares on issue.

Total Incentive Shares	141	41,000,000	
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**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (Continued)**

**Incentive Options:**

<b>Class A</b>	11	4,000,000	Subject to milestones
Total Class A	11	4,000,000	

Pacific Healthcare Ltd holds 2,512,500 of the unquoted Class A Incentive Options representing 63% of the total unquoted Class A Incentive options on issue.

<b>Class B</b>	2	4,000,000	Subject to milestones
Total Class B	2	4,000,000	

HealthTec Growth Partners (or nominee) holds 3,750,000 of the unquoted Class B Incentive Options representing 94% of the total unquoted Class B Incentive options on issue.

<b>Class D</b>	36	6,666,666	Subject to milestones
Total Class D	36	6,666,666	

Pacific Healthcare Investments Ltd holds 3,440,000 of the unquoted Class D Incentive Options representing 52% of the total unquoted Class D Incentive options on issue.

Direct Capital Pty Ltd holds 1,400,000 of the unquoted Class D Incentive Options representing 21% of the total unquoted Class D Incentive options on issue.

<b>Class E</b>	36	6,666,666	Subject to milestones
Total Class E	36	6,666,666	

Pacific Healthcare Investments Ltd holds 3,216,667 of the unquoted Class E Incentive Options representing 48% of the total unquoted Class D Incentive options on issue.

Direct Capital Pty Ltd holds 1,400,000 of the unquoted Class D Incentive Options representing 25% of the total unquoted Class E Incentive options on issue.

<b>Class F</b>	36	6,666,668	Subject to milestones
Total Class F	36	6,666,668	

Pacific Healthcare Investments Ltd holds 3,216,667 of the unquoted Class F Incentive Options representing 48% of the total unquoted Class F Incentive options on issue.

Direct Capital Pty Ltd holds 1,400,000 of the unquoted Class F Incentive Options representing 25% of the total unquoted Class F Incentive options on issue.

Total Incentive Shares	28,000,000
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6. Statement in accordance with ASX Listing Rule 4.10.19

The Company believes that for the year ended 30 June 2004 that, it used its cash and assets in a form readily convertible to cash that it held at the time of admission in a way consistent with its business objectives.