AVASTRA SLEEP CENTRES LTD ABN 47 094 446 803 and CONTROLLED ENTITIES

APPENDIX 4E

PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008

AVASTRA SLEEP CENTRES LIMITED

ABN 47 094 446 803

Appendix 4E

Preliminary final report
for the year ended 30 June 2008

(previous corresponding year to 30 June 2007)

Results for announcement to the market:

			$A'000
	2007	**Change**	**2008**
Revenue from ordinary activities	12,997	Increased 185%	36,973
Loss from ordinary activities after tax attributable to members	(2,035)	Increased 103%	(4,125)
Net loss for the year attributable to members	(2,035)	Increased 103%	(4,125)

Net loss for the year attributable to members after adding back non-cash charges for share-based payments and goodwill impairment.	92	Decreased $1,360	(1,268)

Revenues increased by 185% to $36,973,000 in the year ended 30 June 2008 from $12,997,000 in the year ended 30 June 2007 primarily due to the acquisition of 10 sleep centres, establishing Northeast and Northwest hubs in Buffalo, New York and Seattle, Washington.

The net loss for the year ended 30 June 2008 of $4,125,000 was in line with the most recent guidance and comparable to a net loss of $2,035,000 in the year ended 30 June 2007. Included in the losses for the fiscal years 2008 and 2007 were share based payments of $1,534,000 and $2,127,000, respectively. In addition, fiscal year 2008 included non-cash goodwill impairment charges of $1,323,000.

Operating activities generated negative cash flow of $1,202,000 in the year ended 30 June 2008 compared with positive cash flow of $560,000 in the year ended 30 June 2007. The negative cash flow from operating activities in fiscal 2008 primarily was due to the start up costs of the new sleep centre in Seattle, Washington and the significant decline in clinical research studies in the second half of the year. In fiscal year 2008 $7,405,000 was invested in the acquisitions of sleep centre businesses, and $3,791,000 in property, plant and equipment.

No dividend has been declared for the year.

	30-Jun-07	30-Jun-08
Net tangible assets per security	($0.06)	($0.09)

Please refer to the attached financial statements and notes.

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

AVASTRA SLEEP CENTRES LTD ABN 47 094 446 803 and CONTROLLED ENTITIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
	NOTE	**2008**	**2007**	**2008**	**2007**
		$'000	**$'000**	**$'000**	**$'000**
Sales revenue	2	36,973	12,997	-	-
Interest received	3	320	325	1,476	610
Other revenue	4	444	24	263	68
Cost of sales		(15,601)	(6,171)	-	-
Employee benefits and expenses		(13,234)	(4,304)	(1,653)	(1,054)
Occupancy expense		(2,631)	(681)	(32)	(24)
Administration expenses	5	(3,929)	(1,445)	(397)	(28)
Other operating expenses	6	(3,797)	(2,432)	(292)	(1,883)
Finance costs	7	(1,481)	(456)	(4)	(1)
Depreciation and amortisation		(993)	(233)	(6)	(1)
Loss on impairment of goodwill		(1,323)	-	-	-
Exchange losses - realised		(174)	(124)	(47)	(102)
Exchange losses - unrealised		-	-	(2,744)	(818)
LOSS BEFORE INCOME TAX		(5,426)	(2,500)	(3,436)	(3,233)
Income tax benefit	8	1,301	465	634	430
LOSS FOR THE PERIOD AFTER TAX		(4,125)	(2,035)	(2,802)	(2,803)
Basic earnings per share	10	(3.8)	(3.1)		
Diluted earnings per share	10	(3.6)	(2.9)		

Notes to and forming part of the financial statements are attached.

AVASTRA SLEEP CENTRES LTD ABN 47 094 446 803 and CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	11	1,181	8,063	109	4,377
Trade and other receivables	12	6,781	6,759	24,955	14,956
Inventories	13	628	369	-	-
Deferred tax assets	20	1,002	-	-	-
Other current assets	17	509	691	7	185
TOTAL CURRENT ASSETS		10,101	15,882	25,071	19,518
NON-CURRENT ASSETS					
Investments	14	287	-	-	-
Property, plant and equipment	15	5,593	3,026	-	2
Intangible assets	16	34,304	26,075	-	-
Deferred tax assets	20	2,257	1,626	1,531	743
Other non-current assets	17	534	87	137	-
TOTAL NON-CURRENT ASSETS		42,975	30,814	1,668	745
TOTAL ASSETS		53,076	46,696	26,739	20,263
CURRENT LIABILITIES					
Trade and other payables	18	2,971	2,044	155	215
Short term financial liabilities	19	3,607	1,298	-	-
Current tax liabilities	20	-	4,479	-	-
Short term provisions	21	513	236	-	3
Other current liabilities	22	6,171	5,288	-	-
TOTAL CURRENT LIABILITIES		13,262	13,345	155	218
NON-CURRENT LIABILITIES					
Long term financial liabilities	19	2,388	1,533	-	-
Deferred tax liabilities	20	1,723	1,260	-	-
Other non-current liabilities	22	12,244	10,575	-	-
TOTAL NON-CURRENT LIABILITIES		16,355	13,368	-	-
TOTAL LIABILITIES		29,617	26,713	155	218
NET ASSETS		23,459	19,983	26,584	20,045
EQUITY					
Issued capital	23	38,047	30,031	38,047	30,031
Reserves	24	(1,069)	(654)	1,501	176
Retained earnings		(13,519)	(9,394)	(12,964)	(10,162)
TOTAL EQUITY		23,459	19,983	26,584	20,045

Notes to and forming part of the financial statements are attached.

AVASTRA SLEEP CENTRES LTD ABN 47 094 446 803 and CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

CONSOLIDATED ENTITY	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2006	11,130	-	(7,359)	3,771
New issues	19,864	-	-	19,864
Costs of issue	(963)	-	-	(963)
Transfer to reserves	-	(654)	-	(654)
Profit/(loss) for the period	-	-	(2,035)	(2,035)
Balance at 30 June 2007	30,031	(654)	(9,394)	19,983
Balance at 1 July 2007	30,031	(654)	(9,394)	19,983
New issues	8,899	-	-	8,899
Costs of issue	(883)	-	-	(883)
Transfer to reserves	-	(415)	-	(415)
Profit/(loss) for the period	-	-	(4,125)	(4,125)
Balance at 30 June 2008	38,047	(1,069)	(13,519)	23,459

PARENT ENTITY	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2006	11,130	-	(7,359)	3,771
New issues	19,864	-	-	19,864
Costs of issue	(963)	-	-	(963)
Transfer to reserves	-	176	-	176
Profit/(loss) for the period	-	-	(2,803)	(2,803)
Balance at 30 June 2007	30,031	176	(10,162)	20,045
Balance at 1 July 2007	30,031	176	(10,162)	20,045
New issues	8,899	-	-	8,899
Costs of issue	(883)	-	-	(883)
Transfer to reserves	-	1,325	-	1,325
Profit/(loss) for the period	-	-	(2,802)	(2,802)
Balance at 30 June 2008	38,047	1,501	(12,964)	26,584

Notes to and forming part of the financial statements are attached.

AVASTRA SLEEP CENTRES LTD ABN 47 094 446 803 and CONTROLLED ENTITIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008 Inflows (Outflows) $'000	2007 Inflows (Outflows) $'000	2008 Inflows (Outflows) $'000	2007 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		36,961	15,043	-	264
Payments to suppliers and employees		(36,364)	(14,352)	(943)	(1,966)
Interest received		166	325	275	610
Interest paid		(216)	(456)	(4)	(1)
Income tax (paid) /refunded		(1,749)	-	-	-
NET CASH FROM OPERATING ACTIVITIES	27	(1,202)	560	(672)	(1,093)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for acquisition of businesses (net of cash acquired)	27	(7,405)	(9,020)	-	-
Equity investments		(341)	-	-	-
Payments for property, plant and equipment		(3,791)	(403)	(4)	(3)
Loans advanced to controlled entities		-	-	(8,756)	(12,010)
Proceeds from disposal of property, plant and equipment		21	73	-	31
NET CASH FROM INVESTING ACTIVITIES		(11,516)	(9,350)	(8,760)	(11,982)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		6,047	14,984	6,047	14,984
Costs of issues of shares		(883)	(1,278)	(883)	(1,278)
Repayment of borrowings		(989)	(599)	-	-
Proceeds from borrowings		1,661	-	-	-
NET CASH FROM FINANCING ACTIVITIES		5,836	13,107	5,164	13,706
Net increase/(decrease) in cash held		(6,882)	4,317	(4,268)	631
Cash at the beginning of the period		8,063	3,746	4,377	3,746
CASH AT THE END OF THE PERIOD		1,181	8,063	109	4,377

Notes to and forming part of the financial statements are attached.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
Avastra Sleep Centres Limited (the "Company") is a listed public company domiciled in Australia. The financial report covers the consolidated entity of Avastra Sleep Centres Limited and controlled entities ("the Group"), and Avastra Sleep Centres Limited as an individual parent entity.

The Group operates sleep diagnostic clinics in the United States.

Basis of Preparation
Statement of Compliance
The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards which include Australian equivalents to International Financial Reporting Standards (AIFRS), adopted by the Australian Accounting Standards Board "AASB"), Urgent Issues Group Interpretations (UIG) and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the Company's assessment of the impact of those new standards and interpretations is set out below.

- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 [AASB5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136,AASB 1023, AASB 1038] AASB 2007-3 is applicable to annual reporting periods beginning on or after 1 January 2008. The entity has not adopted the standard early. AASB 2007-3 consequentially amends a number of standards arising from the issue of AASB 8. These amendments result from the change of name to AASB 8. AASB 8 is a disclosure standard and will therefore have no impact on the entity's reported position and performance.

- AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB101. AASB2007-8 is applicable to annual reporting periods beginning on or after 1 January 2009. The entity has not adopted the standard early. AASB2007-8 consequentially amends a number of standards arising from the revision of AASB101. This Amending Standard also changes the term 'general purpose financial report' to 'general purpose financial statements' and the term 'financial report' to 'financial statements' in application paragraphs, where relevant, of Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. Revised AASB101 introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by AASBs. The Group has not yet determined the potential effect of the revised standard on the disclosures in the financial report.

- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will not constitute a change in accounting policy for the Group as the Group's current accounting policy is consistent with the requirements of the revised AASB 123.

- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the the Group's chief executive officer and chief financial officer in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 26). Under the management approach, the Group will present segment information in respect of clincial studies, research studies and medical equipment sales.

- AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential impact of the revised standard on the Group's financial report.

- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Preparation (continued)
Statement of Compliance

- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Groups' 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

- AASB 2008-1 Amendements to Australian Accounting Standard - Share Based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain vesting conditions. AASB 2008-1 becomes mandatoy for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

  In addition to the above, the following interpretations become mandatory for the Group's 30 June 2009 financial report:
  - AI 12 Service Concession Arrangements
  - AI 13 Customer Loyalty Programmes
  - AI 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirments and their Interaction.

  It is not expected that any of these interpretations will have any effect on the financial report.

Reporting Basis and Conventions
The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency of all Group subsidiaries is US dollars because the operations are based in the USA.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and the reported amounts of assets, liabilities, revenue and expenses.

- Critical Accounting Estimates and Judgments

  The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Group. The estimates and judgments made assume a reasonable expectation of future events but actual results may differ from these estimates. Judgment has been used in estimating deferred consideration payable to vendors of acquired businesses where a portion of the deferred consideration payable is subject to the future earnings of those acquired businesses.

- Key Estimates — Impairment
  The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

- Judgment has been used in estimating deferred consideration payable to vendors of business combinations where a portion of the deferred consideration payable is subject to the future earnings of those business combinations.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgments.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

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

Accounting Policies

a. **Principles of Consolidation**
   A controlled entity is any entity Avastra Sleep Centres Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a 30 June financial year-end.

   All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

   Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. **Business Combinations**

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1). If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

When a business combination agreement provides for adjustments to the cost of the business combination contingent on future events, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

c. **Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

d. **Inventories**

Inventories are measured at the lower of cost and net realisable value.

e. **Property, Plant and Equipment**

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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 that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. **Property, Plant and Equipment (continued)**

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

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

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	**Depreciation Rate**
Diagnostic equipment	15–20%
Plant and equipment	15–20%
Leasehold improvements	2.5–25%
Motor vehicles	20%

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

f. **Leases**

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

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

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

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

Leases Incentives

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

g. **Financial Instruments**

Non-derivative financial instuments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised intially at fair value plus, for instruments not at fair value through the profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractural provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire of if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sale of financial assets are accounted for at trade date being the date the Group commits itself to purchase or sell the asset. Financial lilibilitites are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. **Financial Instruments (continued)**

Non-derivative financial instuments

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equvalents for the purpose of the statement of cash flows.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment losses.

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

Financial assets at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon intial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein recognised in profit or loss.

Other
Other non-derivative financial instruments are measured at amortised cost using the effective interets method, less any impairment losses.

Derivative financial instuments
At times, the Group may hold derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated fom the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivates are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

Separable embedded derivatives
Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Compound financial instuments
At times, the Group may issue compound financial instruments comprising convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised intially at their fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proprtion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. **Financial Instruments (continued)**

Compound financial instuments

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

h. **Impairment of Assets**

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between the carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in Groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occuring after the impairment loss was recognised. For financial assets measured at amortised cost and avaialble-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in equity.

Non-financial assets

The carrying amount of the Group's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine recoverable amount. An impairment loss reversed only to the extent that the asset's carrying amount does not excced the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. **Intangibles**

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. **Foreign Currency Transactions and Balances**

Functional and presentation currency
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial report is presented in Australian dollars which is the Company's functional and presentation currency. The functional currency of the foreign operations, US based AvastraUSA, Inc. and its subsidiaries, is United States dollars (US$).

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

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

Exchange differences arising on the translation of non-monetary items are recognised directly in equity.

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

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

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlemet of which is neither planned nor likely in the forseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in the Foreign Currency Translation Reserve.

k. **Employee Benefits**
Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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.

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

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

n. **Cash and Cash Equivalents**
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

o. **Revenue**
Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. **Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognised in profit or loss on the date the Group's right to receive payment is established, which in the case of quoted securities, is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the profit or loss. All borrowing costs are recognised in the profit or loss using hte effective interest rate method.

Foreign currency gains and losses are reported on a net basis.

q. **Borrowing Costs**

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

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

r. **Goods and Services Tax (GST)**

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

Cash flows from operating activities are presented in the cash flow statement on a gross basis. The GST component of cash flows from investing and financing activities, which are recoverable from or payabe to the ATO are classified and disclosed as operating cash flows.

s. **Comparative Figures**

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

t. **Rounding of Amounts**

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Note 2: Sales and Revenue				
Provision of services - clinical studies	23,584	6,645	-	-
Provision of services - research studies	7,710	5,130	-	-
Sale of goods - medical	5,679	1,222	-	-
Total Sales Revenue	36,973	12,997	-	-
Note 3: Interest Received				
Interest received on bank deposits	320	325	275	610
Interest received - controlled entities	-	-	1,201	-
	320	325	1,476	610
Note 4: Other Revenue				
Other revenue	323	24	263	68
Exchange gains - realised	91	-	-	-
Exchange gains - unrealised	-	-	-	-
Gain on disposal of PP&E	30	-	-	-
Total Other Income	444	24	263	68
Note 5: Administration Expenses				
Office Expenses	1,433	755	2	28
Professional services	2,026	329	266	-
Public company costs	90	147	90	-
Insurance	380	214	39	-
	3,929	1,445	397	28
Note 6: Other Expenses				
Other operating expenses	1,591	343	4	397
Motor vehicle expenses	501	62	-	-
Loss on disposal of assets	9	-	-	12
Consultancy fees	-	1,465	-	1,345
Outside services	703	167		
Research & development	-	-	-	-
Telephone and utilities	665	210		
Travel expenses	328	185	65	129
Total Other Operating Expenses	3,797	2,432	69	1,883
Note 7: Finance Costs				
Interest expense - external	415	73	4	1
Net change in fair value of financial assets	1,066	383	-	-
Total Finance Costs	1,481	456	4	1

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Note 8: Income Tax Expense				
a. The components of tax expense comprise:				
Current tax	336	-	46	-
Deferred tax	(1,637)	(465)	(680)	(430)
	(1,301)	(465)	(634)	(430)
b. Income tax recognised directly in equity:				
Current tax	-	-	-	-
Deferred tax	(971)	(314)	(108)	(314)
	(971)	(314)	(108)	(314)
c. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on net profit before income tax at 30%				
- consolidated entity	(1,628)	(761)	-	-
- parent entity	-	-	(1,031)	(970)
Add:				
Tax effect of:				
- other non-allowable items	84	18	76	17
- impairment write-downs	260	-	-	-
- foreign exchange loss on intercompany loan	-	-	143	-
- share-based payments	-	549	-	549
- share options expensed during year	398	53	398	53
	(886)	(141)	(415)	(351)
Less:				
Tax effect of:				
- foreign exchange loss on intercompany loan	-	(245)	-	-
Tax benefit of losses not brought to account	(415)	-	(219)	-
Income tax attributable to entity	(1,301)	(386)	(634)	(351)
The applicable weighted average effective tax rates are as	24%	19%	18%	13%
Note 9: Auditors' Remuneration				
Remuneration of the auditor of the parent entity for:				
- audit and review of the financial report	177	64	177	64
- taxation services	45	9	45	9
- review of prospectus	4	31	4	31
- advice on financial report disclosures	2	4	2	4
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	113	53	-	-
- taxation services	52	6	-	-

Note 10: Earnings per Share

	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000
a. Reconciliation of earnings to profit or loss		
Loss	(4,125)	(2,035)
Loss used to calculate basic EPS	(4,125)	(2,035)
Loss used to calculate diluted EPS	(4,125)	(2,035)

b. Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	**No.**	**No.**
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	108,284,576	66,337,151
Weighted average number of options outstanding	6,871,188	3,408,829
Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS	115,155,764	69,745,980

Calculation of weighted average number of options outstanding:	**No.**	**No.**
Options outstanding at beginning of year	3,980,000	3,988,506
Effect of options issued	5,334,877	2,282,335
Effect of options exercised	(2,308,675)	(1,839,148)
Effect of options lapsed	(135,014)	(1,022,864)
Weighted average options outstanding during the year	6,871,188	3,408,829

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Note 11: Cash and Cash Equivalents				
Cash at bank and on hand	1,181	5,049	109	1,363
Short-term bank deposits	-	3,014	-	3,014
	1,181	8,063	109	4,377
The effective interest rate on short-term bank deposits was 3.50% at 30 June 2007. These deposits have an average maturity of 5 days.				
Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	1,181	8,063	109	4,377
	1,181	8,063	109	4,377
Note 12: Trade and Other Receivables				
CURRENT				
Trade receivables	7,508	6,933	-	-
Provision for impairment of receivables	(727)	(440)	-	-
	6,781	6,493	-	-
Other debtors	-	266	-	66
	-	266	-	66
Other receivables				
Amounts receivable from:				
- wholly-owned subsidiaries	-	-	24,955	14,890
	6,781	6,759	24,955	14,956
Note 13: Inventories				
CURRENT				
Medical equipment held for sale - at cost	628	369	-	-
	628	369	-	-

Note 14: Investments

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
NON-CURRENT				
- Controlled entities	-	-	-	-
- Other corporations	287	-	-	-
	287	-	-	-

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2008	Percentage Owned (%)* 2007
Parent Entity:			
Avastra Sleep Centres Ltd	Australia	-	-
Subsidiaries of Avastra Ltd:			
AvastraUSA, Inc.	United States of America	100	100
Subsidiaries of AvastraUSA, Inc:			
Pacific Sleep Medicine Services, Inc.	United States of America	100	100
Sleepwell Partners, LLC	United States of America	100	100
PDX Sleep Solutions, LLC	United States of America	100	100
California Sleep Solutions, LLC	United States of America	100	100
somniTech, Inc.	United States of America	100	100
somniCare, Inc.	United States of America	100	100
somniSchool, Inc.	United States of America	-	100
Complete Sleep Analysis, LLC	United States of America	100	-
Avastra Eastern Sleep Centers, Inc.	United States of America	100	-
Sleep Medicine Institute Management LLC	United States of America	100	-

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

b. Acquisition of Controlled Entities

Complete Sleep Analysis, LLC

During the period the Group acquired 100% of Complete Sleep Analysis, LLC. Initial consideration was satisfied by the issue of 60,000 ordinary shares at AU$0.59.

The purchase price has been allocated as follows:

	$'000
Purchase consideration	166
Costs of acquisition	52
Total	218

The fair value of assets acquired and liabilities assumed at acquisition date were as follows:

Cash	-
Accounts receivable	42
Property, plant and equipment	171
Trade and other payables	(7)
Long-term debt	(126)
	79
Goodwill on acquisition	139
Total	218

Since acquisition Complete Sleep Analysis, LLC has contributed a loss of $277,428 to the consolidated loss of the Group.

b. Acquisition of Controlled Entities

Avastra Eastern Sleep Centers, Inc

During the period the Group acquired 100% of the assets of Sleep Medicine Centres of West New York, Inc. and rolled them into a wholly owned subsidiary, Avastra Eastern Sleep Centers, Inc. An initial payment of US$2,280,000 was accompanied by the issue of 1,130,000 ordinary shares at an assumed issue price of AU$0.52. Further payments are to occur at 6 months, 12 months and over the following 4 years.

The purchase price, assuming Sleep Medicine Centres of West New York, Inc. achieves the earnings targets, has been allocated as follows:

	$'000
Purchase consideration	8,395
Costs of acquisition	979
Total	9,373

The fair value of assets acquired and liabilities assumed at acquisition date were as follows:

Cash	125
Accounts receivable	664
Property, plant and equipment	211
Trade and other payables	(33)
Short-term debt	(105)
Long-term debt	(119)
	742
Goodwill on acquisition	8,631
Total	9,373

Since acquisition Avastra Eastern Sleep Centers, Inc. has contributed profit of $1,056,745 to the consolidated loss of the Group.

Sleep Medicine Institute Management LLC

During the period the Group acquired 100% of Sleep Medicine Institute Management LLC. The Company committed to a long term lease and the investment of US$1.2 million in the fit-out of a state-of-the-art laboratory. In addition, earn-out payments are to occur at 12 months and over the following 5 years.

The purchase price, assuming Sleep Medicine Institute Management LLC achieves the earnings targets, has been allocated as follows:

	$'000
Purchase consideration	2,835
Costs of acquisition	824
Total	3,659

The fair value of assets acquired and liabilities assumed at acquisition date were as follows:

Cash	39
Trade and other payables	(26)
	14
Goodwill on acquisition	3,645
Total	3,659

Since acquisition Sleep Medicine Institute Management has contributed a loss of $655,554 to the consolidated loss of the Group.

Note 15: Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Diagnostic equipment				
At cost	4,131	3,583	-	-
Accumulated depreciation	(2,124)	(2,119)	-	-
Total Plant and equipment	2,007	1,464	-	-
Plant and equipment:				
At cost	2,063	1,405	7	3
Accumulated depreciation	(1,000)	(729)	(7)	(1)
Total Plant and equipment	1,063	676	-	2
Motor vehicles				
At cost	256	272	-	-
Accumulated depreciation	(152)	(129)	-	-
Total Motor vehicles	104	143	-	-
Leasehold improvements				
At cost	2,664	1,100	-	-
Accumulated depreciation	(245)	(357)	-	-
Total Leasehold improvements	2,419	743	-	-
Total Property, Plant and Equipment	5,593	3,026	-	2

a. Movements in Carrying Amounts

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

	Diagnostic and computer equipment	Plant and Equipment	Motor Vehicles	Leasehold improvements	Total
	$'000	$'000	$'000	$'000	$'000
Consolidated Entity:					
Balance at the beginning of year	1,464	676	143	743	3,026
Additions	915	877	-	2,086	3,879
Disposals	(29)	-	-	-	(29)
Additions through acquisition of entity	335	51	19	24	428
Depreciation expense	(349)	(337)	(43)	(110)	(839)
Effects of movements in exchange rates	(329)	(204)	(15)	(324)	(872)
Carrying amount at the end of year	2,007	1,063	104	2,419	5,593
Parent Entity:					
Balance at the beginning of year	-	2	-	-	-
Additions	-	3	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	(5)	-	-	-
Carrying amount at the end of year	-	-	-	-	-

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
Note 16: Intangible Assets				
Goodwill				
Cost	35,351	25,842	-	-
Accumulated impaired losses	(1,323)	-	-	-
Net carrying value	34,028	25,842	-	-
Computer software				
Cost	457	295	-	-
Accumulated amortisation	(209)	(139)	-	-
Net carrying value	248	156	-	-
Covenant not to compete				
Cost	182	206	-	-
Accumulated amortisation	(155)	(134)	-	-
Net carrying value	27	72	-	-
Organisation costs				
Cost	14	16	-	-
Accumulated amortisation	(13)	(11)	-	-
Net carrying value	1	5	-	-
Total intangibles	34,304	26,075	-	-

	Goodwill	Computer software	Covenant not to compete	Organisation costs	Total Intangibles
	$'000	$'000	$'000	$'000	$'000
Consolidated Group:					
Year ended 30 June 2007					
Balance at the beginning of year	-	-	-	-	-
Acquisitions through business combinations	25,842	175	96	7	
Amortisation charge		(19)	(24)	(2)	
Closing value at 30 June 2007	25,842	156	72	5	-
Year ended 30 June 2008					
Balance at the beginning of year	25,842	156	72	5	26,075
Additions	-	227	-	-	227
Disposals	-	-	-	-	-
Acquisitions through business combinations	13,354	8			13,361
Amortisation charge		(110)	(41)	(3)	(154)
Impairment losses	(1,323)	-	-	-	(1,323)
Effects of movements in exchange rates	(3,845)	(33)	(4)	(1)	(3,883)
Closing value at 30 June 2008	34,028	248	27	1	34,304

	Goodwill	Computer software	Covenant not to compete	Organisation costs	Total Intangibles
Parent Entity:	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2007					
Balance at the beginning of year	-	-	-	-	-
Closing value at 30 June 2007	-	-	-	-	-
Year ended 30 June 2008					
Balance at the beginning of year	-	-	-	-	-
Closing value at 30 June 2008	-	-	-	-	-

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life. It is not expected that the value of goodwill brought to account will diminish over time as it directly relates to the value of the businesses acquired.

No internally generated intangibles have been brought to account.

Note 16: Intangible Assets (continued)

Impairment Disclosures

Goodwill is allocated to groups of cash generating units. The recoverable amount of each group is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections, based on past experience, over a 5 year period with the period extending beyond 5 years extrapolated using an estimated growth rate. The cash flows are discounted using an estimated weighted average costs of capital of 15% and a growth rate 5%.

The Group recorded an impairment charge to goodwill of $1,323,000 during the year ended 30 June 2008 related to Sleepwell Partners and Complete Sleep Analysis LLC.

Goodwill is allocated to groups of cash-generating units which are based on the group's secondary reporting segment:

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
United States		34,028	-	-	-
Australia		-	-	-	-
Total		34,028	-	-	-

Note 17: Other Assets

	Note	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CURRENT					
Prepayments		365	603	7	185
Preliminary acquisition costs		-	88	-	-
Refundable income taxes		144	-	-	-
		509	691	7	185
NON-CURRENT					
Deposits		534	84	137	-
Other		-	3	-	-
		534	87	137	-
		1,043	778	144	185

Note 18: Trade and Other Payables

	Note	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CURRENT					
Unsecured liabilities					
Trade payables		1,529	1,576	52	214
Sundry payables and accrued expenses		1,442	468	103	1
		2,971	2,044	155	215

Note 19: Financial Liabilities

	Note	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CURRENT					
Unsecured liabilities:					
Notes to vendors		230	270		
		230	270	-	-
Secured liabilities:					
Line of credit		519	421	-	-
Notes to vendors		1,480	-	-	-
Equipment loans	25	1,121	562	-	-
Lease liability	25	257	45		
		3,377	1,028	-	-
		3,607	1,298	-	-
NON-CURRENT					
Unsecured liabilities:					
Notes to vendors		316	668		
		316	668	-	-
Secured liabilities:					
Notes to vendors		1,271	-	-	-
Equipment loans	25	442	753	-	-
Lease liability	25	359	112	-	-
		2,072	865	-	-
		2,388	1,533	-	-
		5,995	2,831	-	-

Note 19: Financial Liabilities (continued)

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
a. Total current and non-current secured				
Line of credit	519	421	-	-
Notes to vendors	2,751	-	-	-
Equipment loans	1,563	1,315	-	-
Lease liability	616	157	-	-
	5,449	1,893	-	-
b. The carrying amounts of non-current assets pledged as security are:				
Property, plant and equipment	3,061	1,231	-	-
	3,061	1,231	-	-

c. The line of credit is secured by a fixed and floating charge over the assets of somniTech, Inc. and a personal guarantee from the former owner.

Note 20: Tax

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
a. Liabilities				
CURRENT				
Income Tax	-	4,479	-	-
NON-CURRENT				
Deferred tax liability	1,723	1,260	-	-
Deferred tax liability comprises:				
Tax allowances relating to property, plant and equipment	491	236	-	-
Tax allowances relating to intangibles	175	-	-	-
Tax allowances relating to change in accounting method	1,057	305	-	-
Business assets acquired	-	719	-	-
Total	1,723	1,260	-	-
b. Assets				
CURRENT				
Deferred tax asset	1,002	-	-	-
Current deferred tax asset comprises:				
Tax losses	8	-	-	-
Provisions	994	-	-	-
	1,002	-	-	-
NON-CURRENT				
Deferred tax assets comprise:	2,257	1,626	1,531	743
Deferred tax asset comprises:				
Transaction costs on equity issue	433	314	433	314
Unrealised foreign exchange losses	1,069	245	1,069	245
Tax losses	-	191	-	191
Provisions	755	(1)	29	(1)
Business assets acquired	-	883	-	-
Other	-	(6)	-	(6)
	2,257	1,626	1,531	743

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Note 20: Tax (continued)				
c. Reconciliations				
i. Gross Movements				
The overall movement in the deferred tax accounts is as				
Opening balance	364	-	743	-
Acquisitions through business combinations	-	(660)	-	-
(Charge)/credit to income statement	(165)	465	666	429
(Charge)/credit to equity	971	559	122	314
Closing balance	1,170	364	1,531	743
ii. Deferred Tax Liability				
The movement in deferred tax liability for each temporary difference during the year is as follows:				
Tax allowances relating to property, plant and equipment:				
Opening balance	236	-	-	-
Acquisitions through business combinations	-	253	-	-
Charged to the income statement	255	(17)	-	-
Closing balance	491	236	-	-
Tax allowances relating to change in accounting method:				
Opening balance	305	-	-	-
Acquisitions through business combinations	752	407	-	-
Charged to the income statement	-	(102)	-	-
Closing balance	1,057	305	-	-
Business assets acquired				
Opening balance	719	-	-	-
Charged to the income statement	(544)	719	-	-
Closing balance	175	719	-	-
iii. Deferred Tax Assets				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Transaction costs on equity issue				
Opening balance	314	-	314	-
Credited directly to equity	119	314	119	314
Closing balance	433	314	433	314
Unrealised foreign exchange losses				
Opening balance	245	-	245	-
Credited to the income statement	286	-	824	245
Credited directly to equity	538	245	-	-
Closing balance	1,069	245	1,069	245
Tax losses				
Opening balance	191	-	191	-
Credited to the income statement	(183)	191	(191)	191
Closing balance	8	191	-	191
Provisions				
Opening balance	(1)	-	(1)	-
Credited/(charged) to the income statement	1,750	(1)	30	(1)
Closing balance	1,749	(1)	29	(1)
Business assets acquired				
Opening balance	883	-	-	-
Credited/(charged) to the income statement	(883)	883	-	-
Closing balance	-	883	-	-

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Note 20: Tax (continued)				
Other				
Opening balance	(6)	-	(6)	-
Credited/(charged) to the income statement	6	(6)	6	(6)
Closing balance	-	(6)	-	(6)
d. Deferred tax assets not brought to account:				
- temporary differences	-	-	-	-
- tax losses	734	549	734	549
	734	549	734	549

Note 21: Provisions

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CURRENT				
Employee leave entitlements	513	236	-	3
	513	236	-	3
Provision for Employee leave entitlements				
Opening balance at 1 July	236	6	3	6
Provisions made during the year	774	130	-	3
Provisions used during the year	(497)	(7)	-	(6)
Provisions acquired through business combinations	-	107	-	-
Balance at 30 June	513	236	3	3

A provision has been recognised for employee leave entitlements. It is expected that each employee will use their entitlement within 12 months. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 22: Other Liabilities

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CURRENT				
Deferred consideration payable to vendors of acquired businesses	6,171	5,288	-	-
	6,171	5,288	-	-
NON-CURRENT				
Deferred consideration payable to vendors of acquired businesses	12,244	10,575	-	-
	12,244	10,575	-	-
	18,415	15,863	-	-

Note 23: Issued Capital

	Consolidated Group 2008 $'000	Consolidated Group 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
115,473,374 (2007: 99,284,042) fully paid ordinary shares	38,047	30,031	38,047	30,031
	38,047	30,031	38,047	30,031

Effective 1 July 1998 the concepts of authorised capital and par value shares were abolished. Accordingly, the consolidated entity does not have authorised capital nor par value in respect of its issued capital.

Note 23: Issued Capital (continued)

	Consolidated Entity		Parent Entity	
	2008 No.	2007 No.	2008 No.	2007 No.
a. Ordinary shares				
At the beginning of reporting period	99,284,042	30,138,061	99,284,042	30,138,061
Shares issued during the year				
— 11 September 2006	-	400,000	-	400,000
— 28 September 2006	-	50,000	-	50,000
— 6 October 2006	-	2,000,000	-	2,000,000
— 25 October 2006	-	19,000,000	-	19,000,000
— 29 November 2006	-	5,000,000	-	5,000,000
— 4 December 2006	-	25,794,031	-	25,794,031
— 7 December 2006	-	500,000	-	500,000
— 20 December 2006	-	400,000	-	400,000
— 20 December 2006	-	25,000	-	25,000
— 5 February 2007	-	500,000	-	500,000
— 6 February 2007	-	150,000	-	150,000
— 16 March 2007	-	2,000,000	-	2,000,000
— 16 April 2007	-	10,800,000	-	10,800,000
— 23 April 2007	-	273,375	-	273,375
— 25 May 2007	-	720,000	-	720,000
— 8 June 2007	-	1,000,000	-	1,000,000
— 18 June 2007	-	150,000	-	150,000
— 27 June 2007	-	383,575	-	383,575
— 27 July 2007	2,509,297	-	2,509,297	-
— 7 September 2007	32,264	-	32,264	-
— 6 December 2007	1,130,000	-	1,130,000	-
— 11 December 2007	10,182,560	-	10,182,560	-
— 29 January 2008	145,000	-	145,000	-
— 9 April 2008	500,000	-	500,000	-
— 19 May 2008	1,690,211	-	1,690,211	-
At reporting date	115,473,374	99,284,042	115,473,374	99,284,042

Ordinary shareholders participate in dividends and the proceeds of winding up of the entity in proportion to the number of shares held. At shareholder 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.

Note 24: Reserves

	Consolidated Entity		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
a. Foreign Currency Translation Reserve The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and loans between members of the group.	(2,570)	(830)	-	-
b. Option Reserve The options reserve records items recognised as expenses on valuation of employee share options.	1,501	176	1,501	176
	(1,069)	(654)	1,501	176

Note 25: Capital and Leasing Commitments

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
a.	**Finance Lease and Equipment Loan Commitments**				
	Payable — minimum payments				
	— not later than 12 months	1,562	719	-	-
	— between 12 months and 5 years	900	947	-	-
	— greater than 5 years	-	-	-	-
	Minimum payments	2,462	1,666	-	-
	Less future finance charges	(283)	(194)	-	-
	Present value of minimum payments	2,179	1,472	-	-
b.	**Operating Lease Commitments**				
	Non-cancellable operating leases contracted for but not capitalised in the financial statements				
	Payable — minimum lease payments				
	— not later than 12 months	2,591	1,535	-	-
	— between 12 months and 5 years	6,404	3,984	-	-
	— greater than 5 years	4,486	3,368	-	-
		13,481	8,887	-	-
c.	**Other Commitments**				
	Expenditure commitments contracted for:				
	Corporate and Mergers & Acquisitions advisory services	73	1,484		1,484
		73	1,484	-	1,484
	Payable:				
	— not later than 12 months	73	636	-	636
	— between 12 months and 5 years	-	848	-	848
	— greater than five years	-	-	-	-
		73	1,484	-	1,484

Note 26: Segment Reporting

Primary Reporting — Business Segments

The consolidated entity has the following business segments:

— Clinical studies
— Research studies
— Medical equipment sales

Year ended 30 June 2007	Clinical studies $'000	Research studies $'000	Medical equipment sales $'000	Corporate overhead / Unallocated $'000	Consolidated $'000
External sales	23,584	7,710	5,679	-	36,973
Other revenue	-	-	-	764	764
Total revenue	23,584	7,710	5,679	764	37,737
Segment result (before finance costs)	(2,518)	2,847	2,326	(6,600)	(3,945)
Finance costs				(1,481)	(1,481)
Profit before income tax					(5,426)
Income tax expense					1,301
Profit after income tax					(4,125)
Segment assets	6,650	1,466	1,547	-	9,663
Unallocated assets				43,413	43,413
Total assets					53,076
Segment liabilities	3,250	533	724	-	4,507
Unallocated liabilities				25,110	25,110
Total liabilities					29,617
Acquisitions of non-current segment assets	1,289	196	-	11,669	13,154
Depreciation and amortisation of segment	714	129	68	82	993
Other non-cash segment expenses	-	-	-	-	-

Secondary Reporting — Geographical Segments

The consolidated entity's business segments are located in the United States and corporate operations are located in Australia.

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Geographical location:						
United States	37,483	12,997	51,291	41,324	13,014	29,420
Australia	254	24	1,785	5,373	140	3
	37,737	13,021	53,076	46,697	13,154	29,423

Accounting Policies

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

Intersegment Transfers

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

Note 27: Cash Flow Information

a. Reconciliation of Cash Flow from Operations with Profit after Income Tax

	Note	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Profit after income tax		(4,125)	(2,035)	(2,802)	(2,803)
Non-cash flows in profit					
Amortisation		154	-	-	-
Depreciation		839	233	6	1
Net loss/(gain) on disposal of property, plant and equipment		(21)	22	-	12
Interest capitalised on loans to controlled entities		-	-	(1,201)	-
Share options expensed		1,434	176	1,325	176
Share based payments		100	1,951	-	1,831
Unrealised FX (gains) / losses		-	-	2,744	-
Impairment write down		1,323	-	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries					
(Increase)/decrease in trade and term receivables		(575)	1,387	-	-
(Increase)/decrease in other receivables		266	653	66	56
(Increase)/decrease in prepayments		(517)	(317)	41	51
(Increase)/decrease in inventories		(259)	(151)	-	-
Increase/(decrease) in trade payables and accruals		927	792	(60)	68
(Increase)/decrease in other payables		459	(962)	-	(52)
(Increase)/decrease in income taxes payable		(601)	254	-	-
Increase/(decrease) in deferred taxes		(1,170)	(712)	(788)	(430)
Increase/(decrease) in provisions		564	98	(3)	(3)
Increase/(decrease) in foreign currency translation reserve		-	(829)	-	-
Cash flow from operations		(1,202)	560	(672)	(1,093)

b. Acquisition of Entities

The cash payments made for the acquisition of businesses during the year are explained as follows:

	Note	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Total consideration for acquired businesses	14	11,395	26,986	-	-
Costs of acquisitions		1,855	2,691	-	-
Less: cash in acquired businesses		(164)	(2,138)	-	-
Less: deferred consideration payable - current		(1,642)	(5,272)	-	-
Less: deferred consideration payable - non-current		(4,827)	(10,575)	-	-
Less: consideration satisfied by the issue of shares		(1,312)	(2,760)	-	-
Less: consideration satisfied by the issue promissory note		(1,150)	-	-	-
Cash flow on acquisition net of cash acquired		4,155	8,932	-	-
Costs of acquisitions not completed		593	88	-	-
Costs of previous acquisitions and earn-out payments		2,092	-		
Effects of movements in exchange rates		565	-		
		3,250	88		
Payments for acquisition of businesses		7,405	9,020	-	-

c. Non-cash Financing and Investing Activities

Share issues

60,000 ordinary shares were issued at $0.59 as part of the consideration for the purchase of Complete Sleep Analysis, LLC based on the assumed share price on the day the acquisition was completed.

1,130,000 ordinary shares were issued at an assumed share price of $0.52 as part of the consideration for the purchase of Sleep Medicine Centres of West New York.

1,290,211 ordinary shares were issued at an assumed share price of $0.63 as part of the consideration for the purchase of Sleep Medicine Institute Management, LLC.

2,398,554 ordinary shares were issued with a fair value of $1,427,140 as partial payment for the year one earn-out liability of Pacific Sleep Medicine Services, Inc. based on the share price when the shares were issued.

Note 27: Cash Flow Information (continued)

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
d. Credit Standby Arrangements with Banks				
Line of Credit facility (US$500,000)	519	589	-	-
Amount utilised (US$500,000)	(519)	(421)	-	-
Amount available	-	168	-	-

Interest rates are variable and subject to adjustment.

Note 28: Events After the Balance Sheet Date

a. On 25 July 2008, the Group completed an asset-based revolving line of credit with Gemino Healthcare Finance LLC, with borrowing capacity of up to $A2.1 million based on eligible accounts receivable. The term of the agreement is 3 years and the interest rate is Libor + 12% per annum. The credit line is subject to annual financial reporting requirements and customary debt covenants.

b. On 1 August 2008, the Group terminated all agreements with Stanmore Capital Partners LLC. Stanmore had previously served as an advisor to the Group with regard to mergers and acquisitions.

c. On 15 August 2008, the Company announced a non-renounceable entitlements issue under which its Australian and New Zealand shareholders will be offered 2 fully paid ordinary shares in the Company for every 3 shares held on 25 August 2008, at an issue price of $A0.03 per new share. The entitlements issue is fully underwritten by Colorado Investments Pty. Ltd. and is expected to raise approximately $A 2 million (after issue costs). The proceeds from the entitlements issue will be used for making payments due to current sleep centre vendors, making payments to the contractor for the build-out of the Northwest sleep centre in Seattle, Washington, and for working capital.

Note 29: Company Details

The registered office of Avastra Sleep Centres Limited is:
Level 7, 360 Queen Street, Brisbane QLD 4000, Australia

The principal place of business of AvastraUSA, Inc is:
17780 Fitch Street, Suite 240, Irvine, CA 92614, United States